Alliance Boots GmbH
Consolidated Financial Statements
for the year ended 31 March 2009

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Statutory auditor's report

to the general members meeting of Alliance Boots GmbH

As statutory auditor, we have audited the accompanying Consolidated Financial Statements of Alliance Boots GmbH, which comprise the Group income statement, Group statement of recognised income and expense, Group balance sheet, Group cash flow statement and related notes for the year ended 31 March 2009.

Directors' responsibility

The Directors are responsible for the preparation and fair presentation of the Consolidated Financial Statements in accordance with International Financial Reporting Standards and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of the Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error. The Directors are further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards and International Standards on Auditing (ISA). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the Consolidated Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system.

An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the Consolidated Financial Statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Consolidated Financial Statements for the year ended 31 March 2009 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRSs) and comply with Swiss law.

Reporting on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of Consolidated Financial Statements according to the instructions of the Directors.

We recommend that the Consolidated Financial Statements submitted to you be approved.

KPMG Klynveld Peat Marwick Goerdeler SA

John A. Morris
Licensed Audit Expert
Auditor in Charge

Dr. Elisabeth Kruck
Licensed Audit Expert

Zug, Switzerland
15 May 2009

Group income statement

for the year ended 31 March 2009

	Notes	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Revenue	4	**17,195**	11,865
Profit from operations before associates and joint ventures	4, 5, 6	**640**	486
Share of post tax earnings of associates and joint ventures	16	**75**	49
Impairment of investment in associate	6, 16	**(15)**	–
Profit from operations	6, 7	**700**	535
Finance income	6, 9	**365**	254
Finance costs	10	**(1,052)**	(853)
Profit/(loss) before tax		**13**	(64)
Tax	11	**88**	74
Profit for the year/period		**101**	10
Attributable to:			
Equity shareholders of the Company		**101**	10
Minority interests		–	–
		101	10

All income and expense arose from continuing operations in the year/period.

Group statement of recognised income and expense

for the year ended 31 March 2009

	Note	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Exchange differences on translation of non-Sterling denominated operations		**97**	101
Defined benefit schemes – net actuarial (losses)/gains		**(152)**	181
Fair value gains on cash flow hedging instruments net of amounts recycled		–	1
Net movements on available-for-sale reserve		**21**	(24)
		(34)	259
Tax on items taken directly to equity		**45**	(54)
Income and expense recognised directly in equity	30	**11**	205
Profit for the year/period	30	**101**	10
Total recognised income and expense for the year/period		**112**	215
Attributable to:			
Equity shareholders of the Company		**109**	213
Minority interests		**3**	2
		112	215

The comparative financial information for the period ended 31 March 2008 is from 13 April 2007 to 31 March 2008 and includes the results of the Alliance Boots plc group from the date of acquisition on 26 June 2007.

Group balance sheet

At 31 March 2009

	Notes	2009 £million	2008 £million
Assets			
Non-current assets			
Goodwill	12	**4,771**	4,514
Other intangible assets	13	**5,533**	5,460
Property, plant and equipment	15	**2,147**	2,078
Investments in associates and joint ventures	16	**1,079**	910
Available-for-sale investments	17	**39**	48
Other receivables	19	**66**	66
Deferred tax assets	22	**102**	66
Retirement benefit assets	34	**216**	317
Derivative financial instruments	24	**–**	1
		13,953	13,460
Current assets			
Inventories	18	**1,542**	1,422
Trade and other receivables	19	**2,649**	2,130
Cash and cash equivalents	20	**473**	413
Restricted cash	21	**343**	366
Derivative financial instruments	24	**4**	2
Assets classified as held-for-sale		**11**	–
		5,022	4,333
Total assets		**18,975**	17,793
Liabilities			
Current liabilities			
Borrowings	24	**(930)**	(733)
Trade and other payables	23	**(3,213)**	(2,509)
Current tax liabilities		**(14)**	(30)
Provisions	28	**(88)**	(31)
Derivative financial instruments	24	**–**	(22)
		(4,245)	(3,325)
Net current assets		**777**	1,008
Non-current liabilities			
Borrowings	24	**(8,674)**	(8,585)
Other payables	23	**(21)**	(25)
Deferred tax liabilities	22	**(1,498)**	(1,545)
Retirement benefit obligations	34	**(28)**	(20)
Provisions	28	**(35)**	(57)
Derivative financial instruments	24	**(250)**	(188)
		(10,506)	(10,420)
Net assets		**4,224**	4,048
Equity			
Share capital	29, 30	**1,065**	1,005
Share premium	30	**2,795**	2,795
Retained earnings	30	**131**	137
Other reserves	30	**191**	76
Shareholders' equity	30	**4,182**	4,013
Minority interests	30	**42**	35
Total equity	30	**4,224**	4,048

Group cash flow statement

for the year ended 31 March 2009

	Note	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Operating activities			
Profit from operations		**700**	535
Adjustments to reconcile profit from operations to cash generated from operations:			
Share of post tax earnings of associates and joint ventures		**(75)**	(49)
Depreciation and amortisation		**345**	256
Impairment of goodwill and investment in associate		**40**	–
Profit on disposal of property, plant and equipment		**(2)**	–
(Increase)/decrease in inventories		**(13)**	34
(Increase)/decrease in receivables		**(100)**	224
Increase/(decrease) in payables and provisions		**202**	(265)
Movement in retirement benefit assets and obligations		**(52)**	(116)
Cash generated from operations		**1,045**	619
Tax paid		**(23)**	(58)
Net cash from operating activities		**1,022**	561
Investing activities			
Acquisition of businesses		**(138)**	(10,790)
Cash and cash equivalents of businesses acquired net of overdrafts		**25**	420
Disposal of businesses		**1**	20
Purchase of investments in associates and joint ventures		**–**	(41)
Purchase of available-for-sale investments		**(3)**	(3)
Purchase of property, plant and equipment, and intangible assets		**(294)**	(222)
Disposal of property, plant and equipment, and intangible assets		**22**	19
Dividends received from associates and joint ventures		**34**	19
Interest received		**49**	61
Net cash used in investing activities		**(304)**	(10,517)
Financing activities			
Interest paid		**(646)**	(598)
Interest element of finance lease obligations		**(4)**	(4)
Proceeds from borrowings		**125**	8,200
Repayment of borrowings, repurchase of acquisition borrowings and settlement of derivatives		**(342)**	(621)
Fees associated with financing activities		**(22)**	(246)
Net cash and cash equivalents transferred from/(to) restricted cash		**161**	(366)
Issue of ordinary share capital		**60**	3,800
Repayment of capital element of finance lease obligations		**(20)**	(16)
Contribution from minority interests		**–**	17
Net cash (used in)/from financing activities		**(688)**	10,166
Net increase in cash and cash equivalents in the year/period		**30**	210
Cash and cash equivalents at beginning of year/period		**197**	–
Currency translation difference		**(17)**	(13)
Cash and cash equivalents at 31 March	20	**210**	197

All cash flows arose from continuing operations in the year/period.

Notes to the Consolidated Financial Statements

for the year ended 31 March 2009

1. General information

Alliance Boots GmbH is a private company incorporated in Switzerland. The address of its registered office is Alliance Boots GmbH, Baarerstrasse 78, CH-6300 Zug, Switzerland. The principal activities of the Group are pharmacy-led health and beauty retailing and pharmaceutical wholesaling and distribution in many major international markets.

2. Accounting policies

The principal accounting policies applied in the preparation of the Consolidated Financial Statements are set out below:

Basis of accounting

The Consolidated Financial Statements have been prepared in Sterling reflecting the denomination of the currency of the most significant proportion of the trade and cash flows of the Group and have been rounded to the nearest £1 million. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as they apply to the Consolidated Financial Statements for the year ended 31 March 2009. Had the Consolidated Financial Statements been prepared under International Financial Reporting Standards as adopted by the European Union, there would be no material changes to the information presented in these Consolidated Financial Statements.

The Consolidated Financial Statements have been prepared principally on the historical cost basis. Other applicable measurement bases applied in the preparation of the Consolidated Financial Statements are identified in the accounting policies below.

The preparation of Consolidated Financial Statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the Consolidated Financial Statements. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates were significant to the Consolidated Financial Statements are disclosed in note 36.

Basis of accounting for the prior period

On 31 March 2008 Alliance Boots GmbH acquired investments held by AB Acquisitions Holdings Limited in exchange for the issue of share capital, and became a subsidiary of that company.

On 26 June 2007 Alliance Boots plc was acquired by AB Acquisitions Limited, a company controlled by certain funds advised by Kohlberg Kravis Roberts & Co. L.P. and S. Pessina. Alliance Boots GmbH gained control of AB Acquisitions Limited on 31 March 2008, however the intermediate holding companies along with the ultimate parent company, AB Acquisitions Holdings Limited, continued to be under the same common control. Under IFRSs, transactions involving companies under common control, including the acquisition of the intermediate parent companies by Alliance Boots GmbH, are accounted for at book value (rather than fair value), and the results for the Group were presented as if each of these transactions had taken place at the start of the earliest period presented.

The effect of this is that the Consolidated Financial Statements of Alliance Boots GmbH for the comparative period are presented from 13 April 2007 (the earliest date of common control) to 31 March 2008, and include the results of the Alliance Boots plc group from the date of acquisition on 26 June 2007. The assets and liabilities of Alliance Boots plc have been consolidated at their fair value at the date of acquisition. The transactions leading to the introduction of Alliance Boots GmbH were accounted for at book value and no further fair valuation exercise was required in relation to the acquisition of Alliance Boots plc.

Going concern

The Directors consider that the Group has adequate resources to remain in operation for the foreseeable future, and have therefore continued to adopt the going concern basis for preparing the Consolidated Financial Statements.

Interpretations that were effective during the year ended 31 March 2009, but not relevant for the Group

The following interpretations are effective for the year ended 31 March 2009, but have not had any material impact on the Consolidated Financial Statements:

- IFRIC 12, 'Service Concession Arrangements', which applies exclusively to operators of public-to-private service concession arrangements; and
- IFRIC 14, 'IAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction', which provides interpretative guidance on the recognition and measurement of a defined benefit asset.

2. Accounting policies (continued)

Standards, amendments to published Standards and Interpretations that are not yet effective and have not been adopted early by the Group.

The following Standards, amendments to published Standards and Interpretations were available for early adoption, but have not yet been applied in the preparation of the Consolidated Financial Statements:

		Effective for periods beginning on or after
IFRS 2	Amendment – Share Based Payment – Vesting Conditions and Cancellations	1 January 2009
IFRS 3	Revised – Business Combinations	1 July 2009
IFRS 7	Amendment – Financial Instruments: Disclosures – Reclassification of Financial Instruments	1 July 2008
IFRS 8	Operating Segments	1 January 2009
IAS 1	Revised – Presentation of Financial Statements	1 January 2009
IAS 1	Amendment – Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
IAS 23	Amendment – Borrowing Costs	1 January 2009
IAS 27	Revised – Consolidated and Separate Financial Statements	1 July 2009
IAS 32	Amendment – Financial Instruments: Presentation	1 January 2009
IAS 39	Amendment – Financial Instruments: Recognition and Measurement	1 July 2008
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2009
IFRIC 16	Hedges of a Net Investment	1 October 2008
IFRIC 17	Distributions of Non-Cash Assets to Owners	1 July 2009
IFRIC 18	Transfers of Assets from Customers	1 July 2009

The Directors do not anticipate that the adoption of these Standards, amendments to published Standards and Interpretations will have a material impact on the Consolidated Financial Statements in the period of initial application with the exception of the revisions to IFRS 3, IAS 27, IAS 1 and IFRIC 17 where it is not possible to estimate the impact in the period of initial application as their impact is dependent on uncertain future events.

Consolidation

The Consolidated Financial Statements as at and for the year ended 31 March 2009 comprise the Company and its subsidiaries and their interests in associates and joint ventures (together referred to as the "Group").

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The results of subsidiaries acquired or disposed of during the period are included in the Group income statement from and to the date that control commences or ceases, as appropriate.

An associate is an entity over which the Group, either directly or indirectly, is in a position to exercise significant influence by participating in, but without control, or joint control, of the financial and operating policies of the entity.

A joint venture is an entity over which the Group, either directly or indirectly, is in a position to jointly control the financial and operating policies of the entity.

Associates and joint ventures are accounted for using the equity method. Unrealised profits and losses recognised by the Group on transactions with associates or joint ventures are eliminated to the extent of the Group's interest in the associate or joint venture concerned. Financial statements of some associates and joint ventures are prepared for different reporting periods from that of the Group. Adjustments are made for the effects of transactions and events that occur between the reporting date of an associate or joint venture and the reporting date of the Consolidated Financial Statements.

All intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

Currency

Currency transactions

Transactions denominated in currencies other than an entity's functional currency are translated into an entity's functional currency at the exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in currencies other than an entity's functional currency at the balance sheet date are translated at the exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost and are denominated in currencies other than an entity's functional currency are translated using the exchange rates at the date of the transaction. Non-monetary items that are measured at fair value and are denominated in currencies other than an entity's functional currency are translated using the exchange rates at the date when the fair value was determined. Exchange gains and losses are recognised in the income statement.

2. Accounting policies (continued)

Non-Sterling denominated entities

The assets and liabilities of non-Sterling denominated entities, including goodwill and fair value adjustments arising on consolidation, are translated into Sterling at exchange rates ruling at the balance sheet date. The results and cash flows of non-Sterling denominated entities are translated into Sterling at the average exchange rate for the period, which approximates to the underlying actual rates.

Exchange differences arising from the translation of the results and net assets of non-Sterling denominated entities are recognised in the translation reserve.

When a non-Sterling denominated entity is sold, the related balance in the translation reserve is recognised in the income statement as part of the gain or loss on sale.

Revenue

Revenue shown on the face of the income statement is the amount derived from the sale of goods and services outside of the Group in the normal course of business and is measured at the fair value of consideration received or receivable net of trade discounts, value added tax and other sales-related taxes. Revenue from the sale of goods is recognised when the Group has transferred the significant risks and rewards of ownership and control of the goods sold and the amount of revenue can be measured reliably. Revenue from services is recognised when it is probable that the economic benefits associated with the transaction will flow to the entity and the amount of revenue can be measured reliably.

The accounting policies for the major revenue categories by business segment are:

Health & Beauty Division

Reimbursement of dispensing revenue is initially estimated because the actual reimbursement is often not known until after the month of sale.

Consideration received from retail sales is recorded as revenue at the point of sale less appropriate adjustments for returns.

In respect of loyalty schemes (principally the Boots Advantage Card), as points are issued to customers, the retail value of those points expected to be redeemed is deferred. When the points are used by customers they are recorded as revenue. Sales of gift vouchers are only included in revenue when vouchers are redeemed.

Pharmaceutical Wholesale Division

Wholesale revenue is recognised upon despatch of goods.

When the Group acts in the capacity of an agent, or a logistics service provider, revenue is the service fees and is recognised upon performance of the services concerned.

Contract Manufacturing

Revenue is recognised upon despatch of goods.

Supplier rebates

Certain suppliers offer rebates when purchases made in a period meet or exceed a predetermined level. Rebates are only recognised when there is clear evidence of this type of binding arrangement with the supplier and the rebate receipt is both probable and can be reasonably estimated. The rebate is recognised as a reduction in the purchase price.

Exceptional items

Exceptional items are items classified by the Group as exceptional in nature. These are not regarded as forming part of the trading activities of the Group and so merit separate presentation to allow stakeholders to understand the elements of financial performance and to assess the trends in financial performance.

Finance income

Finance income comprises interest receivable on funds invested calculated using the effective interest rate method, net exchange gains relating to financing items, expected returns on defined benefit scheme assets, net fair value movements on derivative financial instruments recognised in the income statement, dividends received from investments and discounts on the repurchase of bank loans provided to the Group, which are accounted for as loan redemptions. Dividend income is recognised when the right to receive payment is established.

Finance costs

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method, financing fees, net exchange losses relating to financing, interest on defined benefit scheme liabilities, the interest expense component of finance lease payments and net fair value movements on derivative financial instruments recognised in the income statement.

2. Accounting policies (continued)

Current/non-current classification

Current assets include assets held primarily for trading purposes, cash and cash equivalents, restricted cash and assets expected to be realised in, or intended for sale or consumption in, the course of the Group's operating cycle. All other assets are classified as non-current assets.

Current liabilities include liabilities held primarily for trading purposes, liabilities expected to be settled in the course of the Group's operating cycle and those liabilities due within one year from the reporting date. All other liabilities are classified as non-current liabilities.

Business combinations and goodwill

Business combinations are accounted for under IFRS 3 using the purchase method of accounting. The cost of acquisition is the consideration given in exchange for the identifiable net assets. This consideration includes any cash paid plus the fair value at the date of exchange of assets given, liabilities incurred or assumed and equity instruments issued by the Group. The cost of acquisition also includes directly attributable costs.

The acquired net assets are initially recognised at fair value (which is deemed cost in the Consolidated Financial Statements). Where the Group does not acquire 100% ownership of the acquired company, a minority interest is recorded as the minority's proportion of the fair value of the acquired net assets. Any adjustment to the fair values is recognised within twelve months of the acquisition date.

Goodwill on acquisitions comprises the excess of the fair value of the consideration plus any directly attributable costs over the fair value of the identifiable net assets acquired. Any goodwill and fair value adjustments are recorded as assets and liabilities of the acquired business and are recorded in the local currency of that business. The costs of integrating and reorganising acquired businesses are charged to the post-acquisition income statement.

Goodwill is carried at cost less accumulated impairment losses. No amortisation is charged.

Intangible assets

Intangible assets are stated at cost or deemed cost less any impairment and accumulated amortisation. The principal categories of intangible assets are:

Pharmacy licences

Pharmacy licences, being the exclusive right to operate as a pharmacy, are capitalised where there is an asset that can be separated from other identifiable assets that together form a pharmacy business.

Brands

Brands consist of corporate and product brands acquired as part of business combinations that meet the criteria for separate recognition. Costs in relation to internally generated brands are not capitalised.

Customer relationships

Customer relationships consist of relationships with customers established through contracts, or non-contractual customer relationships that meet the criteria for separate recognition, that have been acquired in a business combination.

Product licences

Licences which give the right to sell certain products in specific countries are recognised separately as an intangible asset when they are acquired.

Software

Software that is not integral to an item of property, plant and equipment is recognised separately as an intangible asset. Certain direct and indirect development costs associated with internally developed software, including direct costs of materials and services, and payroll costs for employees devoting time to the software projects, are capitalised once the project has reached the application development stage. The costs are amortised from when the asset is ready for use. Costs incurred during the preliminary project stage, maintenance and training costs, and research and development costs are expensed as incurred.

Amortisation

Where an intangible asset is considered to have a finite life, amortisation is charged to the income statement on a straight-line basis over the useful life from the date the asset is available for use. Pharmacy licences recognised as intangible assets do not expire and therefore are considered to have an indefinite life. Certain brands have been identified as having an indefinite life, based on their life and history along with current market strength and future development plans. Those assets considered to have an indefinite life are not amortised and are tested for impairment at each balance sheet date. The useful lives for those intangible assets with a finite life are:

- Brands – 10 to 20 years;
- Customer relationships – 4 to 20 years;
- Product licences – 5 to 15 years; and
- Software – 3 to 8 years.

Amortisation periods and methods are reviewed annually and adjusted if appropriate.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

2. Accounting policies (continued)

Property, plant and equipment

All property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and impairment losses.

Depreciation of property, plant and equipment is provided to write off the cost, less residual value, in equal instalments over their expected useful economic lives which are:

- Freehold land and assets in the course of construction – not depreciated;
- Freehold and long leasehold buildings – not more than 50 years;
- Short leasehold land and buildings – remaining period of lease;
- Plant and machinery – 3 to 10 years; and
- Fixtures, fittings, tools and equipment – 3 to 20 years.

Residual values, remaining useful economic lives and depreciation methods are reviewed annually and adjusted if appropriate.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

Impairment of assets

The Group's assets are reviewed at each balance sheet date to determine whether events or changes in circumstances exist that indicate that their carrying amount may not be recoverable. If such an indication exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (referred to as cash generating units).

For goodwill and other intangible assets that have an indefinite life and assets not yet available for use, the recoverable amount is estimated annually or more frequently when there is an indication that the asset is impaired.

Assets held-for-sale and discontinued operations

Assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered through sale rather than through continuing use. The asset or disposal group must be available for immediate sale and the sale must be highly probable and be expected to complete within one year of the balance sheet date. Where applicable, assets and disposal groups classified as held-for-sale are measured at the lower of fair value less costs to sell and carrying amount.

Impairment losses on initial classification as held-for-sale are included in the income statement. Gains reversing previous impairment losses or losses on subsequent remeasurements are also included in the income statement.

Assets classified as held-for-sale are disclosed separately on the face of the balance sheet and classified as current assets or liabilities with disposal groups being separated between assets held-for-sale and liabilities held-for-sale. No amortisation or depreciation is charged on assets, including those in disposal groups, classified as held-for-sale.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of, has been abandoned or meets the criteria for classification as held-for-sale. Where applicable, discontinued operations are presented in the income statement as a separate line entitled 'Profit after tax from discontinued operations'.

Available-for-sale investments

The Group classifies its listed and unlisted investments as available-for-sale financial assets and measures them at fair value. The fair values of quoted investments are based on current bid prices and for investments where there is no quoted market price, fair value is determined by using valuation techniques, such as estimated discounted cash flows or by reference to the current market value of similar investments. Gains and losses arising from changes in fair values and exchange translation are recognised in equity until the investment is either disposed or derecognised. When an investment is disposed or derecognised, the related balance in the available-for-sale reserve is recognised in the income statement as part of the gain or loss on sale.

Trade receivables

Trade receivables are initially recognised at fair value and are subsequently measured at amortised cost, less allowances for impairment where appropriate. These are reviewed for impairment on an individual or collective basis, depending on the size of the receivable and the period for which it is overdue.

2. Accounting policies (continued)

Inventories

Inventories are valued at the lower of cost and net realisable value. With the exception of retail inventory in the Health & Beauty Division, cost is determined using the first in, first out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

The cost of raw materials and packaging is their purchase price. The cost of work in progress and finished goods comprises the purchase cost of goods, direct labour and those overheads related to manufacture and distribution based on normal activity levels. Retailing merchandise is valued at retail prices and reduced by appropriate margins to take into account factors such as average cost, obsolescence, seasonality and damage.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and short term deposits with maturities of three months or less from the date of acquisition. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. Bank overdrafts are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Restricted cash

Restricted cash comprises deposits, the use of which is restricted for specific purposes and so is not available for the use of the Group in its day-to-day operations.

Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to currency translation and interest rate risks arising from operating, financing and investing activities.

In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for at fair value with movements taken to the income statement.

Derivative financial instruments are recognised initially at fair value, with movements on remeasurement recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

The fair value of forward exchange contracts is their market price at the balance sheet date.

Hedges

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or non-financial liability.

If the hedged forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period, or periods, during which the asset acquired or liability assumed affects profit or loss.

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period, or periods, during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

Fair value hedges

Where a derivative financial instrument hedges changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, any gain or loss on the hedging instrument is recognised in the income statement. The hedged item is also stated at fair value in respect of the risk(s) being hedged, with any gain or loss recognised in the income statement.

2. Accounting policies (continued)

Hedge of monetary assets and liabilities

Where a derivative financial instrument is used to hedge economically the currency translation exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the income statement.

Hedge of net investment in non-Sterling denominated entities

On consolidation, the effective portion of the gain or loss on an instrument designated as a hedge of net investment in a non-Sterling denominated entity that is determined to be an effective hedge is recognised directly in the translation reserve. The ineffective portion is recognised immediately in the income statement.

When a non-Sterling denominated entity is sold, the cumulative currency gains or losses on the hedging instrument associated with that non-Sterling entity are removed from the translation reserve and recognised in the income statement as part of the gain or loss on sale.

Trade payables

Trade payables are initially recognised at fair value and are subsequently measured at amortised cost.

Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Retirement benefits

The Group operates a number of retirement benefit schemes under which contributions by employees and by the sponsoring companies are held in trust funds separated from the Group's finances. Where a retirement benefits arrangement is unfunded, provision is made in the balance sheet for the obligation.

Defined benefit schemes

A defined benefit scheme is a retirement benefit scheme that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. The Group's net obligation or asset in respect of defined benefit schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of any scheme assets is deducted.

The discount rate is the yield at the balance sheet date on AA rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. Scheme assets are valued at bid price.

Current and past service costs are recognised in profit from operations, finance costs include interest on defined benefit scheme liabilities and the expected return on defined benefit scheme assets is included in finance income. Past service costs are recognised immediately to the extent that the benefits are already vested, otherwise they are amortised on a straight-line basis over the average period until the benefits become vested. All actuarial gains and losses that arise in calculating the Group's obligation in respect of a scheme are recognised immediately in reserves and reported in the statement of recognised income and expense.

Defined contribution schemes

Obligations for contributions to defined contribution retirement benefit schemes are recognised as an expense in the income statement as they fall due.

Leases

Leases, for which the Group assumes substantially all the risks and rewards of ownership, are classified as finance leases, including outsourced assets held exclusively for the use of the Group. The cost of assets held under finance leases is included within property, plant and equipment and depreciation is provided in accordance with the policy for the class of asset concerned over the length of the lease. The corresponding obligations under these leases are shown as liabilities. The finance charge element of rentals is charged to the income statement through finance costs to produce, or approximate to, a constant periodic rate of charge on the remaining balance of the outstanding obligations. Lease premiums paid in advance are treated as prepayments and are amortised over the period of the lease.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Predetermined rental increases included in the lease are recognised on a straight-line basis. Benefits received as an incentive to sign a lease, whatever form they may take, are credited to the income statement on a straight-line basis over the lease term.

Lease income is recognised on a straight-line basis over the lease term.

2. Accounting policies (continued)

Tax
Tax on the profit or loss for the period represents the sum of current tax and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax
Current tax is the expected tax payable on the taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax
Deferred tax is provided in full using the balance sheet liability method. It is the tax expected to be payable or recoverable on the temporary differences between the carrying amounts of assets and liabilities in the Consolidated Financial Statements and the corresponding tax bases used in the computation of taxable profit. The following temporary differences are not provided for: those arising from the initial recognition of goodwill, the initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that it is not probable that they will reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amounts of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Additional income taxes that arise from receipt of dividends from the Group's subsidiary and associate and joint venture interests are recognised at the same time as the payee recognises the liability to pay the related dividend except where the timing of the payment is not controlled by the Group, in which case a deferred tax liability is recognised in full against those distributable reserves.

Deferred tax assets and liabilities are offset in the balance sheet when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Provisions
Provisions are recognised in the balance sheet when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and that obligation can be measured reliably. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects the risks specific to the liability.

Equity instruments
An equity instrument is any contract which evidences a residual interest in the net assets of an entity. A financial instrument is treated by the Group as equity if:

- there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on unfavourable terms; and
- the instrument is either a non-derivative which contains no contractual obligation to deliver a variable number of shares, or is a derivative which will be settled only by the Group exchanging a fixed amount of cash or other financial assets, for a fixed number of its own equity instruments.

Incremental costs directly attributable to the issue of new shares are shown as a deduction, net of applicable tax, from the proceeds. An incremental share issue cost is one which would not have arisen if shares had not been issued.

3. Exchange rates

The principal exchange rates relative to Sterling used in the preparation of the Consolidated Financial Statements were:

	Average		Closing rate	
	Year ended 31 March 2009	Period ended 31 March 2008	At 31 March 2009	At 31 March 2008
Euro	**1.205**	1.402	**1.075**	1.272
Norwegian Krone	**10.182**	11.103	**9.485**	10.204
Russian Rouble	**46.014**	49.999	**48.277**	47.136
Turkish Lira	**2.394**	2.474	**2.389**	2.566
Swiss Franc	**1.884**	2.298	**1.634**	1.995
Chinese Renminbi	**11.842**	14.902	**9.764**	14.072

4. Segmental information

Segmental information is presented in respect of the Group's business and geographical operating segments. The primary format is by business segments, which is based on an assessment of the dominant source and nature of the Group's risks and returns and on the Group's management and internal reporting structure. Inter-segment pricing is determined on an arm's length basis.

Primary operating segments
The Group comprises the following primary operating segments:

Health & Beauty Division
Comprises all of the pharmacy-led health and beauty retail businesses across the Group. These businesses are located in the UK, Norway, Republic of Ireland, The Netherlands, Thailand, Italy and Russia.

Pharmaceutical Wholesale Division
Comprises all of the pharmaceutical wholesaling and distribution businesses across the Group. These businesses are located in France, UK, Spain, Italy, The Netherlands, Russia, Czech Republic, Norway and Germany.

Contract Manufacturing & Corporate Costs
Comprises the activities of Contract Manufacturing and Corporate, which fall outside of the Group's two Divisions, and also includes unrealised profit in stock adjustments. The profit contribution for Contract Manufacturing was allocated to the Health & Beauty Division.

Revenue and profit from operations before associates and joint ventures for the Group's primary operating segments were:

Year ended 31 March 2009	Health & Beauty Division £million	Pharmaceutical Wholesale Division £million	Contract Manufacturing & Corporate Costs £million	Eliminations £million	Total £million
External revenue	**7,127**	**9,962**	**106**	–	**17,195**
Inter-segment sales	**20**	**1,303**	–	**(1,323)**	–
Total revenue	**7,147**	**11,265**	**106**	**(1,323)**	**17,195**
Trading profit/(loss)	**673**	**215**	**(47)**	–	**841**
Exceptional items	**(61)**	**(60)**	–	–	**(121)**
Amortisation of customer relationships and brands	**(36)**	**(44)**	–	–	**(80)**
Profit from operations before associates and joint ventures	**576**	**111**	**(47)**	–	**640**
Share of post tax earnings of associates and joint ventures					**75**
Impairment of investment in associate					**(15)**
Profit from operations					**700**
Finance income					**365**
Finance costs					**(1,052)**
Profit before tax					**13**
Tax					**88**
Profit for the year					**101**

4. Segmental information (continued)

Period ended 31 March 2008	Health & Beauty Division £million	Pharmaceutical Wholesale Division £million	Contract Manufacturing & Corporate Costs £million	Eliminations £million	Total £million
External revenue	5,323	6,461	81	–	11,865
Inter-segment sales	14	951	–	(965)	–
Total revenue	5,337	7,412	81	(965)	11,865
Trading profit/(loss)	468	159	(28)	–	599
Exceptional items	(27)	(1)	(30)	–	(58)
Amortisation of customer relationships and brands	(26)	(29)	–	–	(55)
Profit from operations before associates and joint ventures	415	129	(58)	–	486
Share of post tax earnings of associates and joint ventures					49
Profit from operations					535
Finance income					254
Finance costs					(853)
Loss before tax					(64)
Tax					74
Profit for the period					10

The Group's primary operating segment assets and liabilities at the balance sheet date were:

	2009			2008		
	Assets £million	Liabilities £million	Total £million	Assets £million	Liabilities £million	Total £million
Health & Beauty Division	**10,899**	**(1,164)**	**9,735**	10,804	(1,095)	9,709
Pharmaceutical Wholesale Division	**5,933**	**(2,380)**	**3,553**	4,980	(1,693)	3,287
Contract Manufacturing & Corporate	**147**	**(84)**	**63**	136	(84)	52
Eliminations	**(271)**	**271**	–	(250)	250	–
Net operating assets	**16,708**	**(3,357)**	**13,351**	15,670	(2,622)	13,048
Unallocated:						
Investments in associates and joint ventures			**1,079**			910
Available-for-sale investments			**39**			48
Net defined benefit assets			**188**			297
Assets classified as held-for-sale			**11**			–
Current and deferred tax			**(1,410)**			(1,509)
Net borrowings			**(9,034)**			(8,746)
			4,224			4,048

Segment operating assets at 31 March 2009 comprised goodwill of £4,771 million (2008: £4,514 million), other intangible assets of £5,533 million (2008: £5,460 million), property, plant and equipment of £2,147 million (2008: £2,078 million), non-current other receivables of £66 million (2008: £66 million), inventories of £1,542 million (2008: £1,422 million), and trade and other receivables of £2,649 million (2008: £2,130 million).

Segment operating liabilities at 31 March 2009 comprised trade and other payables of £3,213 million (2008: £2,509 million), current provisions of £88 million (2008: £31 million), non-current other payables of £21 million (2008: £25 million) and non-current provisions of £35 million (2008: £57 million).

Eliminations included inter-segmental trading accounts between subsidiary undertakings.

4. Segmental information (continued)

Other segmental information in respect of the Group's primary operating segments was:

Year ended 31 March 2009	Health & Beauty Division £million	Pharmaceutical Wholesale Division £million	Contract Manufacturing & Corporate Costs £million	Total £million
Amortisation of other intangible assets	**65**	**55**	–	**120**
Depreciation of property, plant and equipment	**184**	**33**	**8**	**225**
Capital expenditure				
– other intangible assets	**29**	**21**	–	**50**
– property, plant and equipment	**195**	**33**	**8**	**236**

Period ended 31 March 2008	Health & Beauty Division £million	Pharmaceutical Wholesale Division £million	Contract Manufacturing & Corporate Costs £million	Total £million
Amortisation of other intangible assets	66	32	–	98
Depreciation of property, plant and equipment	129	23	6	158
Capital expenditure				
– other intangible assets	30	19	–	49
– property, plant and equipment	164	29	6	199

Geographical operating segments

Segmental revenue is based on the geographical location of the customers. Segmental capital expenditure and segmental operating assets are based on the geographical location of the assets. The secondary segment financial information was:

	Revenue		Capital expenditure		Operating assets	
	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
UK	**7,798**	5,788	**229**	206	**12,270**	12,008
France	**4,519**	3,043	**23**	10	**1,897**	1,464
Other	**4,958**	3,112	**34**	32	**2,541**	2,198
Inter-segment	**(80)**	(78)	–	–	–	–
	17,195	11,865	**286**	248	**16,708**	15,670

5. Profit from operations before associates and joint ventures

Year ended 31 March 2009	Before exceptional items and amortisation of customer relationships and brands £million	Exceptional items £million	Amortisation of customer relationships and brands £million	Total £million
Revenue	**17,195**	–	–	**17,195**
Cost of sales	**(13,147)**	–	–	**(13,147)**
Gross profit	**4,048**	–	–	**4,048**
Selling, distribution and store costs	**(2,753)**	**(62)**	**(80)**	**(2,895)**
Administrative costs	**(454)**	**(34)**	–	**(488)**
Goodwill impairment	–	**(25)**	–	**(25)**
Profit from operations before associates and joint ventures	**841**	**(121)**	**(80)**	**640**

Period ended 31 March 2008	Before exceptional items and amortisation of customer relationships and brands £million	Exceptional items £million	Amortisation of customer relationships and brands £million	Total £million
Revenue	11,865	–	–	11,865
Cost of sales	(8,909)	–	–	(8,909)
Gross profit	2,956	–	–	2,956
Selling, distribution and store costs	(1,980)	(31)	(55)	(2,066)
Administrative costs	(377)	(27)	–	(404)
Profit from operations before associates and joint ventures	599	(58)	(55)	486

6. Exceptional items

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Within profit from operations:		
Costs in relation to Pharmaceutical Wholesale Division restructuring programme[1]	**(60)**	–
Costs in relation to merger cost synergies and second phase of integration projects	**(36)**	(31)
Impairment of goodwill[2]	**(25)**	–
Costs in relation to the acquisition of Alliance Boots plc	–	(27)
Within profit from operations before associates and joint ventures	**(121)**	(58)
Impairment of investment in associate[3]	**(15)**	–
	(136)	(58)
Within finance income:		
Impairment of available-for-sale investment[4]	**(28)**	–
Discounts on repurchase of acquisition borrowings[5]	**106**	–
	78	–
	(58)	(58)

[1] The Group recently embarked on a Division-wide restructuring programme to adapt its Pharmaceutical Wholesale Division to meet the changing expectations of customers and payors. The programme is targeted to reduce operating costs by around £55 million per annum by 2011/12 and has resulted in exceptional charges of £60 million in the year, the majority of which represent redundancy costs.

[2] The Group recorded an impairment on part of the goodwill allocated to its Health & Beauty business in The Netherlands, which has been adversely impacted by Dutch healthcare insurers expanding the use of tenders for generic medicines from June 2008 onwards, known as the "preference policy", which has substantially reduced the profitability of pharmacies across the country. See note 14 for further detail.

[3] The Group recorded an impairment of its associate investment in Andreae-Noris Zahn AG based on a comparison of its carrying value and estimated recoverable amount, as determined by the application of a value-in-use methodology.

[4] The Group recorded an impairment of its investment in Cegedim to reflect the market value of its quoted shares at 31 March 2009. The exceptional item comprised the net of £39 million of cumulative net fair value losses recorded in the available-for-sale reserve to 31 March 2009 for this investment, less £11 million of cumulative currency gains recorded in the translation reserve, both of which were recycled to the income statement.

[5] During the year the Group repurchased acquisition borrowings, principally mezzanine debt drawn under the subordinated bank loan facility, from holders in the secondary market. The nominal value of borrowings repurchased was £191 million and the total discount, net of the related prepaid financing fees, was accounted for as a redemption of bank loans, reducing the Group's net borrowings.

7. Profit from operations

The following items have been deducted in arriving at profit from operations:

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Amortisation of other intangible assets	**120**	98
Depreciation of property, plant and equipment		
– owned assets	**207**	141
– held under finance leases	**18**	17
Operating lease rentals	**332**	240
Employee costs	**1,749**	1,495

An analysis of the total remuneration paid to the Group's principal auditor is provided below:

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Audit		
– Consolidated Financial Statements	**0.4**	0.8
– subsidiary financial statements	**1.9**	1.9
	2.3	2.7
Other services		
– corporate finance transactions	**0.6**	–
– required by legislation	–	0.7
– taxation	**0.5**	0.3
– other	**0.3**	0.1
	1.4	1.1
	3.7	3.8

8. Employee costs

The average monthly number of persons employed by the Group over the year/period, including Directors and part-time employees, was:

	2009		2008	
	Number of heads	Full time equivalents	Number of heads	Full time equivalents
Health & Beauty Division	**76,724**	**48,634**	75,029	46,333
Pharmaceutical Wholesale Division	**15,584**	**13,782**	15,732	14,225
Contract Manufacturing & Corporate	**2,011**	**1,950**	2,097	2,038
	94,319	**64,366**	92,858	62,596

Costs incurred in respect of these employees were:

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Wages and salaries	**1,497**	1,301
Social security costs	**181**	139
Retirement benefit costs		
– defined benefit schemes	**54**	45
– defined contribution schemes	**17**	10
	1,749	1,495

9. Finance income

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Bank deposit and other interest income	**48**	63
Net fair value movements on derivative financial instruments	–	23
Expected return on defined benefit scheme assets	**234**	163
Other finance income	**5**	5
	287	254
Exceptional items		
– impairment of available-for-sale investment	**(28)**	–
– discounts on repurchase of acquisition borrowings	**106**	–
	365	254

10. Finance costs

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Interest on bank loans and overdrafts[1]	**632**	567
Interest on loan notes	**31**	44
Net fair value movements on derivative financial instruments	**60**	34
Financing fees[2]	**76**	46
Finance charges on finance leases	**4**	4
Interest on defined benefit scheme liabilities	**241**	157
Other finance costs	**8**	1
	1,052	853

[1] Interest on bank loans and overdrafts includes £27 million (period ended 31 March 2008: £19 million) of rolled up interest on mezzanine debt which is payable when the debt itself is settled.

[2] Financing fees include £46 million (period ended 31 March 2008: £27 million) of amortised fees which are being expensed over the term of the financing being provided. The remaining unamortised fees are deducted from the carrying value of the Group's borrowings.

11. Tax

An analysis of the tax credit in the year/period was:

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Current tax		
Current tax charge for the year/period	**(5)**	(4)
Adjustments in respect of prior periods	**1**	7
	(4)	3
Deferred tax		
Deferred tax credit/(charge) relating to the origination and reversal of temporary differences	**92**	(19)
Adjustments due to changes in tax rates	**–**	90
	92	71
	88	74

The underlying tax charge, calculated before exceptional items, amortisation of customer relationships and brands, IAS 39 timing differences and other exceptional tax, reconciled to the tax credit in the year/period was:

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Underlying tax credit/(charge)	**25**	(55)
Tax on		
– exceptional items	**24**	18
– amortisation of customer relationships and brands	**23**	17
– IAS 39 timing differences	**16**	4
Other exceptional tax	**–**	90
	88	74

The Group's principal operations are geographically dispersed and therefore the appropriate standard rate of tax is the average of the standard tax rates in the countries of operation, weighted by the amount of profit on ordinary activities before taxation. The reconciliation of the expected total tax credit was based on this weighted average standard tax rate of 37.1% (period ended 31 March 2008: 34.5%).

The effective average tax rate, which is defined as the tax credit expressed as a percentage of profit from operations excluding share of post tax earnings of associates and joint ventures, net of finance income and finance costs, was 141.9% (period ended 31 March 2008: 65.5%).

The reconciliation of the expected total tax credit to the reported tax credit in the year/period was:

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Profit/(loss) before tax	**13**	(64)
Less: share of post tax earnings of associates and joint ventures	**(75)**	(49)
	(62)	(113)
Expected tax credit at weighted average standard tax rate	**23**	39
Factors affecting credit for the year/period		
– Non-taxable/(non-deductible) items	**11**	(1)
– Unrelieved tax losses arising in the year/period	**(1)**	(52)
– Deferred tax on unremitted earnings of associates and joint ventures	**(8)**	(4)
– Current tax adjustments in respect of prior periods	**1**	7
– Deferred tax adjustments in respect of prior periods[1]	**67**	1
– Profits taxed at different rates	**–**	90
– Other differences	**(5)**	(6)
	88	74

[1] Deferred tax assets have been recognised on capital allowances that have not been claimed due to taxable losses and the recognition of prior period UK losses.

11. Tax (continued)

Tax credit/(charge) on items taken directly to equity comprised:

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Tax credit/(charge) on defined benefit schemes – actuarial (losses)/gains	**45**	(56)
Tax credit on other temporary differences	**–**	2
	45	(54)

12. Goodwill

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Net book value		
At beginning of year/period	**4,514**	–
Acquisition of Alliance Boots plc	**–**	4,365
Other acquisitions	**112**	11
Impairment	**(25)**	–
Currency translation differences	**170**	138
At 31 March	**4,771**	4,514

13. Other intangible assets

Year ended 31 March 2009	Pharmacy licences £million	Brands £million	Customer relationships £million	Product licences £million	Software £million	Total £million
Cost						
At 1 April 2008	**1,260**	**2,979**	**1,154**	**3**	**167**	**5,563**
Acquisitions	**23**	**7**	**42**	**–**	**1**	**73**
Additions	**–**	**–**	**–**	**–**	**50**	**50**
Disposals	**–**	**–**	**–**	**–**	**(6)**	**(6)**
Currency translation differences	**2**	**–**	**67**	**1**	**9**	**79**
At 31 March 2009	**1,285**	**2,986**	**1,263**	**4**	**221**	**5,759**
Amortisation						
At 1 April 2008	**–**	**3**	**55**	**–**	**45**	**103**
Charge for the year	**–**	**3**	**77**	**–**	**40**	**120**
Disposals	**–**	**–**	**–**	**–**	**(6)**	**(6)**
Currency translation differences	**–**	**–**	**7**	**–**	**2**	**9**
At 31 March 2009	**–**	**6**	**139**	**–**	**81**	**226**
Net book value	**1,285**	**2,980**	**1,124**	**4**	**140**	**5,533**

13. Other intangible assets (continued)

Period ended 31 March 2008	Pharmacy licences £million	Brands £million	Customer relationships £million	Product licences £million	Software £million	Total £million
Cost						
At beginning of period	–	–	–	–	–	–
Acquisition of Alliance Boots plc	1,162	2,979	1,101	3	112	5,357
Other acquisitions	96	–	–	–	–	96
Additions	–	–	–	–	49	49
Currency translation differences	2	–	53	–	6	61
At 31 March 2008	1,260	2,979	1,154	3	167	5,563
Amortisation						
At beginning of period	–	–	–	–	–	–
Charge for the period	–	3	52	–	43	98
Currency translation differences	–	–	3	–	2	5
At 31 March 2008	–	3	55	–	45	103
Net book value	1,260	2,976	1,099	3	122	5,460

14. Impairment testing of goodwill and other intangible fixed assets

Goodwill, pharmacy licences and brands are subject to annual impairment testing, or are assessed more frequently if there are indications of impairment. In addition, customer relationships were reviewed for potential impairment at 31 March 2009.

Goodwill, pharmacy licences, brands and customer relationships have been allocated to the appropriate cash generating units (CGUs) identified according to the country of operation and business. Those with significant amounts allocated at the balance sheet date are shown in the table below:

	2009				2008			
	Goodwill £million	Pharmacy licences £million	Brands £million	Customer relationships £million	Goodwill £million	Pharmacy licences £million	Brands £million	Customer relationships £million
Health & Beauty Division – UK	**2,552**	**1,278**	**2,973**	**570**	2,545	1,252	2,976	602
Pharmaceutical Wholesale Division – UK	**1,044**	–	–	**139**	1,034	–	–	152
Other	**1,175**	**7**	**7**	**415**	935	8	–	345
	4,771	**1,285**	**2,980**	**1,124**	4,514	1,260	2,976	1,099

The recoverable amounts of the CGUs are determined from value-in-use calculations which use discounted pre tax cash flows from approved budgets and three year forecasts and extrapolated cash flows for the periods beyond these using estimated long term growth rates. The key assumptions are:

- **Long term average growth rates** are used to extrapolate cash flows. These are determined with reference to both internal approved budgets and forecasts and available external long term growth data for both the country and sector of each CGU.
- **Discount rates** are calculated separately for each CGU and reflect the individual nature and specific risks relating to the market in which it operates.
- **Gross margins** are based on past performance and management's expectations of market development. No improvements to margins beyond periods covered by approved budgets and forecasts have been assumed.

The CGUs with significant amounts of intangible assets are the UK businesses in the Health & Beauty and Pharmaceutical Wholesale Divisions. The pre tax discount rates used in the impairment tests for these businesses were 14% (2008: 15%), and the long term growth rates were 4.5% (2008: 4.4%).

As a result of performing these impairment tests, the Group has determined that part of the goodwill allocated to the Health & Beauty business in The Netherlands was impaired by £25 million. The pre tax discount rate and long term growth rate applied in the supporting value-in-use calculation were 13.4% and 3.7% respectively.

15. Property, plant and equipment

Year ended 31 March 2009	Land and buildings £million	Plant and machinery £million	Fixtures, fittings, tools and equipment £million	Total £million
Cost				
At 1 April 2008	**1,102**	**147**	**990**	**2,239**
Acquisitions	**5**	**3**	**5**	**13**
Additions	**49**	**8**	**179**	**236**
Disposals	**(11)**	**(6)**	**(14)**	**(31)**
Business disposals	–	–	**(3)**	**(3)**
Currency translation differences	**47**	**6**	**16**	**69**
At 31 March 2009	**1,192**	**158**	**1,173**	**2,523**
Depreciation				
At 1 April 2008	**14**	**19**	**128**	**161**
Charge for the year	**18**	**26**	**181**	**225**
Disposals	–	**(3)**	**(8)**	**(11)**
Business disposals	–	–	**(3)**	**(3)**
Currency translation differences	**1**	**1**	**2**	**4**
At 31 March 2009	**33**	**43**	**300**	**376**
Net book value	**1,159**	**115**	**873**	**2,147**

Period ended 31 March 2008	Land and buildings £million	Plant and machinery £million	Fixtures, fittings, tools and equipment £million	Total £million
Cost				
At beginning of period	–	–	–	–
Acquisition of Alliance Boots plc	1,069	111	827	2,007
Other acquisitions	1	–	1	2
Additions	19	34	146	199
Disposals	(19)	–	–	(19)
Business disposals	(1)	–	(1)	(2)
Currency translation differences	33	2	17	52
At 31 March 2008	1,102	147	990	2,239
Depreciation				
At beginning of period	–	–	–	–
Charge for the period	14	19	125	158
Currency translation differences	–	–	3	3
At 31 March 2008	14	19	128	161
Net book value	1,088	128	862	2,078

Included within the net book values were amounts in respect of assets held under finance leases of £17 million (2008: £39 million) in land and buildings, £10 million (2008: £9 million) in plant and machinery and £26 million (2008: £33 million) in fixtures, fittings, tools and equipment.

Property, plant and equipment included payments on account and assets in the course of construction of £50 million (2008: £15 million).

16. Investments in associates and joint ventures

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
At beginning of year/period	**910**	–
Acquisition of Alliance Boots plc	–	737
Additions	–	41
Share of post tax earnings	**75**	49
Dividends	**(34)**	(19)
Impairment	**(15)**	–
Reclassified to assets held-for-sale	**(11)**	–
Currency translation differences	**154**	102
At 31 March	**1,079**	910

During 2008/09 the Group exercised its put option to dispose of an associate investment and expects to complete the transaction during 2009/10. Additions during the prior period related to the investment in Guangzhou Pharmaceuticals Corporation.

Details of the Group's principal associates and joint venture are provided in note 35.

Included within the total carrying value of investments in associates and joint ventures was £552 million (2008: £444 million) in respect of listed companies. Their market value, based on their closing share prices at 31 March 2009, was £383 million (2008: £368 million).

The aggregate assets and liabilities reported by associates and joint ventures at 31 March 2009 were:

	2009 £million	2008 £million
Total assets	**4,142**	3,160
Total liabilities	**(2,977)**	(2,143)
Net assets	**1,165**	1,017
Group's share	**442**	377

The Group's share of contingent liabilities of associates and joint ventures was £10 million (2008: £11 million).

The aggregate revenues reported by associates and joint ventures for the year ended 31 March 2009 were:

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Total revenue	**8,870**	5,201
Group's share	**3,348**	1,904

The aggregate post tax earnings reported by associates and joint ventures for the year ended 31 March 2009 were:

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Total post tax earnings	**207**	121
Group's share	**75**	49

17. Available-for-sale investments

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
At beginning of year/period	**48**	–
Acquisition of Alliance Boots plc	–	63
Additions	**3**	3
Movements in fair value	**(18)**	(24)
Currency translation differences	**6**	6
At 31 March	**39**	48

Available-for-sale investments were categorised:

	2009 £million	2008 £million
Listed securities		
– equity	**27**	38
– non-equity	**8**	9
Unlisted securities – equity	**4**	1
	39	48

18. Inventories

	2009 £million	2008 £million
Raw materials	**32**	32
Work in progress	**8**	11
Finished goods	**1,502**	1,379
	1,542	1,422

Included in the aggregate carrying value presented above was £32 million (2008: £30 million) of inventories held at net realisable value.

The net reversal in the year of write-downs that were previously recognised as a reduction in the carrying value of inventories to net realisable value was £8 million (period ended 31 March 2008: net write-down of £16 million). The cost of inventories expensed in both periods presented was not materially different to the cost of sales recorded (note 5).

19. Trade and other receivables

	2009 £million	2008 £million
Non-current		
Loans to customers and extended terms	**30**	34
Short leasehold premiums	**25**	26
Other receivables	**11**	6
	66	66
Current		
Trade receivables	**2,296**	1,812
Provision for impairment of trade receivables	**(39)**	(32)
	2,257	1,780
Loans to customers and extended terms	**82**	81
Prepayments and accrued income	**143**	132
Other receivables	**167**	137
	2,649	2,130

19. Trade and other receivables (continued)

Loans to customers and extended terms included receivables of £107 million (2008: £109 million) where contractual terms have been renegotiated to extend the credit period offered.

Where trade receivables are estimated to be less than their carrying values, provisions have been made to write them down to their estimated recoverable amounts. The aggregate carrying value of impaired trade receivables was £202 million (2008: £167 million) and the associated aggregate impairment was £39 million (2008: £32 million).

Included within the aggregate unimpaired trade receivables were £167 million (2008: £137 million) which were past due. These balances have been assessed for recoverability and the Group believes that their credit quality remains intact. An ageing analysis of these unimpaired past due trade receivables was:

	Less than 1 month past due £million	1-2 months past due £million	2-3 months past due £million	More than 3 months past due £million	Total past due £million
Carrying value at 31 March 2009	**100**	**29**	**20**	**18**	**167**
Carrying value at 31 March 2008	67	31	11	28	137

The movement in the provision for impairment of trade receivables was:

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
At beginning of year/period	**(32)**	–
Acquisition of Alliance Boots plc	–	(25)
Provision for impairment	**(13)**	(7)
Amounts written off	**5**	1
Reversal of provision for impairment	**6**	2
Currency translation differences	**(5)**	(3)
At 31 March	**(39)**	(32)

20. Cash and cash equivalents

	2009 £million	2008 £million
Bank balances	**178**	173
Short term deposits	**295**	240
Cash and cash equivalents	**473**	413
Bank overdrafts	**(263)**	(216)
Cash and cash equivalents in the cash flow statement	**210**	197

21. Restricted cash

Restricted cash at 31 March 2009 of £343 million (2008: £366 million) consisted of cash pledged as collateral in respect of loan note obligations of £239 million (2008: £366 million) and deposits restricted under contractual agency agreements of £104 million (2008: £nil).

22. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following after offset:

	2009 Net £million	2008 Net £million
Unrelieved tax losses	**102**	66
Accelerated capital allowances	**(165)**	(63)
Retirement benefit assets	**(45)**	(83)
Fair value items	**(1,014)**	(1,213)
Rolled over gains	**(30)**	(30)
Remittable earnings of associates and joint ventures	**(42)**	(69)
Other temporary differences	**(202)**	(87)
Net deferred tax liabilities	**(1,396)**	(1,479)

The movement in the net deferred tax liability balance was:

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
At beginning of year/period	**(1,479)**	–
Acquisition of Alliance Boots plc	**–**	(1,458)
Other acquisitions	**(15)**	(11)
Income statement credit	**92**	71
Credited/(charged) to equity	**45**	(54)
Currency translation differences	**(39)**	(27)
At 31 March	**(1,396)**	(1,479)

The movement in deferred tax assets and liabilities during the year was:

Year ended 31 March 2009	Unrelieved tax losses £million	Accelerated capital allowances £million	Retirement benefit assets £million	Fair value items £million	Rolled over gains £million	Remittable earnings of associates and joint ventures £million	Other temporary differences £million	Total £million
Deferred tax assets								
At 1 April 2008	**66**	–	–	–	–	–	–	**66**
Acquisitions	**5**	–	–	–	–	–	–	**5**
Income statement credit	**27**	–	–	–	–	–	–	**27**
Currency translation differences	**4**	–	–	–	–	–	–	**4**
At 31 March 2009	**102**	–	–	–	–	–	–	**102**
Deferred tax liabilities								
At 1 April 2008	–	**(63)**	**(83)**	**(1,213)**	**(30)**	**(69)**	**(87)**	**(1,545)**
Reclassifications[1]	–	**(119)**	**1**	**196**	**(1)**	**46**	**(123)**	–
Acquisitions	–	–	–	**(18)**	–	–	**(2)**	**(20)**
Income statement credit/(charge)	–	**19**	**(9)**	**58**	**1**	**(14)**	**10**	**65**
Credited to equity	–	–	**45**	–	–	–	–	**45**
Currency translation differences	–	**(2)**	**1**	**(37)**	–	**(5)**	–	**(43)**
At 31 March 2009	–	**(165)**	**(45)**	**(1,014)**	**(30)**	**(42)**	**(202)**	**(1,498)**
Net deferred tax assets/(liabilities)	**102**	**(165)**	**(45)**	**(1,014)**	**(30)**	**(42)**	**(202)**	**(1,396)**

[1] The opening deferred tax liabilities have been re-analysed between the categories shown above, with no overall impact on the total deferred tax liability at 1 April 2008 of £1,545 million.

22. Deferred tax assets and liabilities (continued)

Period ended 31 March 2008	Unrelieved tax losses £million	Accelerated capital allowances £million	Retirement benefit assets £million	Fair value items £million	Rolled over gains £million	Remittable earnings of associates and joint ventures £million	Other temporary differences £million	Total £million
Deferred tax assets								
At beginning of period	–	–	–	–	–	–	–	–
Acquisition of Alliance Boots plc	53	–	–	–	–	–	–	53
Income statement credit	10	–	–	–	–	–	–	10
Currency translation differences	3	–	–	–	–	–	–	3
At 31 March 2008	66	–	–	–	–	–	–	66
Deferred tax liabilities								
At beginning of period	–	–	–	–	–	–	–	–
Acquisition of Alliance Boots plc	–	(50)	1	(1,259)	(32)	(54)	(117)	(1,511)
Other acquisitions	–	–	–	(11)	–	–	–	(11)
Income statement (charge)/credit	–	(12)	(28)	79	2	(5)	25	61
(Charged)/credited to equity	–	–	(56)	–	–	–	2	(54)
Currency translation differences	–	(1)	–	(22)	–	(10)	3	(30)
At 31 March 2008	–	(63)	(83)	(1,213)	(30)	(69)	(87)	(1,545)
Net deferred tax assets/(liabilities)	66	(63)	(83)	(1,213)	(30)	(69)	(87)	(1,479)

Unrecognised deferred tax assets and liabilities

Deferred tax assets have only been recognised on deductible temporary differences, unused tax losses or tax credits to the extent that future taxable profits will be available against which the asset can be utilised. The assets are recorded after reviewing the financial forecasts of the Group's position, depreciation and potential capital expenditure for capital allowances. Where it is not considered probable that a taxable profit will arise against which the temporary difference can be utilised, no asset has been recognised. Unprovided deferred tax on trading losses net of amortisation was £3 million (2008: £56 million) and on capital losses was £nil (2008: £nil). The trading losses can be carried forward for 20 years.

23. Trade and other payables

	2009 £million	2008 £million
Current		
Trade payables	**2,334**	1,849
Other taxation and social security	**135**	127
Accruals and deferred income	**454**	226
Other payables	**290**	307
	3,213	2,509
Non-current		
Other payables	**21**	25
	21	25

24. Financial assets and liabilities

The carrying amounts of financial assets and liabilities were:

	2009 £million	2008 £million
Current borrowings		
Bank overdrafts	**(263)**	(216)
Bank loans – other	**(112)**	(113)
£300 million Eurobond 2009 5.5%	**(300)**	–
Medium term notes	–	(14)
Loan notes	**(240)**	(368)
Finance lease liabilities	**(15)**	(22)
	(930)	(733)
Non-current borrowings		
Bank loans – senior facilities	**(7,919)**	(7,503)
Bank loans – subordinated facility	**(597)**	(744)
Bank loans – other	**(53)**	(7)
£300 million Eurobond 2009 5.5%	–	(300)
Other loans	**(75)**	–
Finance lease liabilities	**(30)**	(31)
	(8,674)	(8,585)
Total borrowings	**(9,604)**	(9,318)
Cash and cash equivalents	**473**	413
Total borrowings net of cash and cash equivalents	**(9,131)**	(8,905)
Restricted cash	**343**	366
Derivative financial instruments – currency rate instrument assets	**4**	3
Derivative financial instruments – currency and interest rate instrument liabilities	**(250)**	(210)
Net borrowings	**(9,034)**	(8,746)
Available-for-sale investments	**39**	48
Loans to customers and extended terms	**112**	115
Trade receivables net of provision for impairment	**2,257**	1,780
Trade payables	**(2,334)**	(1,849)
Net financial liabilities	**(8,960)**	(8,652)

The Group's principal net borrowings arose from the following sources:

- Variable rate committed bank term loans. These loans, which are denominated in Sterling, Euros and Swiss Francs, are fully drawn and their aggregate carrying value at 31 March 2009 was £8,516 million (2008: £8,247 million) including the impact of currency revaluation and reported net of unamortised fees incurred in respect of the loans. These loans mature between 2014 and 2017.
- £240 million (2008: £368 million) of loan notes classified within current borrowings, which can be redeemed by the holders giving notice prior to the semi-annual interest payment dates. If no such notice is given the notes will fall due on their contractual maturity dates which are up to 2014. The Group holds a floating rate interest bearing deposit of £239 million (2008: £366 million) shown within restricted cash (note 21) as collateral against loan notes with the same principal amount. This deposit is only available to the Group for the purpose of redeeming the associated loan notes.
- A 10 year Eurobond of £300 million issued in 1999 carrying a fixed interest rate of 5.5% and held on the Group balance sheet at amortised cost. This matures on 26 May 2009.
- Bank overdrafts which are repayable on demand.

24. Financial assets and liabilities (continued)

Maturity profile of financial liabilities before the impact of derivative financial instruments

The table below shows the contractual maturities of financial liabilities on an undiscounted basis, including interest payments. Interest is calculated based on liabilities held at 31 March 2009 without taking account of any future debt issuance. Floating rate interest was estimated using prevailing interest conditions at 31 March 2009. Cash flows in non-Sterling currencies were translated using prevailing exchange rates at 31 March 2009. All floating rate borrowings re-price within six months of the balance sheet date.

At 31 March 2009	Carrying value £million	Aggregate contractual cash flows £million	1 year or less £million	1-2 years £million	2-5 years £million	>5 years £million
Fixed						
£300 million Eurobond 2009 5.5%	**(300)**	**(317)**	**(317)**	–	–	–
Other loans	**(75)**	**(105)**	**(6)**	**(6)**	**(93)**	–
Finance lease liabilities	**(45)**	**(64)**	**(16)**	**(11)**	**(15)**	**(22)**
Floating						
Bank overdrafts	**(263)**	**(263)**	**(263)**	–	–	–
Bank loans – senior facilities	**(7,919)**	**(11,194)**	**(405)**	**(409)**	**(1,582)**	**(8,798)**
Bank loans – subordinated facility	**(597)**	**(1,170)**	**(30)**	**(32)**	**(132)**	**(976)**
Bank loans – other	**(165)**	**(192)**	**(115)**	**(7)**	**(12)**	**(58)**
Loan notes	**(240)**	**(241)**	**(241)**	–	–	–
Total borrowings	**(9,604)**	**(13,546)**	**(1,393)**	**(465)**	**(1,834)**	**(9,854)**
Trade payables	**(2,334)**	**(2,334)**	**(2,334)**	–	–	–
Total non-derivative financial liabilities	**(11,938)**	**(15,880)**	**(3,727)**	**(465)**	**(1,834)**	**(9,854)**
Interest rate derivatives						
– outflows		**(101)**	**(31)**	**(28)**	**(42)**	–
– inflows		–	–	–	–	–
	(82)	**(101)**	**(31)**	**(28)**	**(42)**	–
Currency swaps						
– outflows		**(952)**	**(44)**	**(35)**	**(873)**	–
– inflows		**781**	**47**	**37**	**697**	–
	(168)	**(171)**	**3**	**2**	**(176)**	–
Total derivative financial liabilities	**(250)**	**(272)**	**(28)**	**(26)**	**(218)**	–
Total financial liabilities	**(12,188)**	**(16,152)**	**(3,755)**	**(491)**	**(2,052)**	**(9,854)**

24. Financial assets and liabilities (continued)

At 31 March 2008	Carrying value £million	Aggregate contractual cash flows £million	1 year or less £million	1-2 years £million	2-5 years £million	>5 years £million
Fixed						
£300 million Eurobond 2009 5.5%	(300)	(333)	(17)	(316)	–	–
Medium term notes	(4)	(4)	(4)	–	–	–
Finance lease liabilities	(53)	(82)	(26)	(14)	(16)	(26)
Floating						
Bank overdrafts	(216)	(216)	(216)	–	–	–
Bank loans – senior facilities	(7,503)	(12,030)	(650)	(554)	(1,784)	(9,042)
Bank loans – subordinated facility	(744)	(1,714)	(68)	(59)	(204)	(1,383)
Loan notes	(368)	(377)	(377)	–	–	–
Bank loans – other	(120)	(120)	(113)	(4)	(2)	(1)
Medium term notes	(10)	(10)	(10)	–	–	–
Total borrowings	(9,318)	(14,886)	(1,481)	(947)	(2,006)	(10,452)
Trade payables	(1,849)	(1,849)	(1,849)	–	–	–
Total non-derivative financial liabilities	(11,167)	(16,735)	(3,330)	(947)	(2,006)	(10,452)
Interest rate derivatives						
– outflows		(70)	(14)	(14)	(42)	–
– inflows		–	–	–	–	–
	(30)	(70)	(14)	(14)	(42)	–
Currency swaps						
– outflows		(614)	(129)	(20)	(465)	–
– inflows		400	97	17	286	–
	(179)	(214)	(32)	(3)	(179)	–
Currency exchange contracts						
– outflows		(364)	(364)	–	–	–
– inflows		363	363	–	–	–
	(1)	(1)	(1)	–	–	–
Total derivative financial liabilities	(210)	(285)	(47)	(17)	(221)	–
Total financial liabilities	(11,377)	(17,020)	(3,377)	(964)	(2,227)	(10,452)

24. Financial assets and liabilities (continued)

Currency profile

The financial assets and liabilities by currency, before the effect of currency hedging, were:

At 31 March 2009	Total £million	Sterling £million	Euros £million	Swiss Francs £million	Other £million
Bank overdrafts	**(263)**	**(61)**	**(195)**	–	**(7)**
Bank loans – senior facilities	**(7,919)**	**(5,505)**	**(2,130)**	**(284)**	–
Bank loans – subordinated facility	**(597)**	**(597)**	–	–	–
Bank loans – other	**(165)**	–	**(125)**	–	**(40)**
£300 million Eurobond 5.5%	**(300)**	**(300)**	–	–	–
Other loans	**(75)**	**(75)**	–	–	–
Loan notes	**(240)**	**(240)**	–	–	–
Finance lease liabilities	**(45)**	**(38)**	**(7)**	–	–
Total borrowings	**(9,604)**	**(6,816)**	**(2,457)**	**(284)**	**(47)**
Cash and cash equivalents	**473**	**313**	**107**	–	**53**
Restricted cash	**343**	**239**	**104**	–	–
Derivative financial instruments – currency rate instrument assets	**4**	**4**	–	–	–
Derivative financial instruments – currency and interest rate instrument liabilities	**(250)**	**(241)**	**(9)**	–	–
Available-for-sale investments	**39**	**12**	**27**	–	–
Loans to customers and extended terms	**112**	–	**106**	–	**6**
Trade receivables net of provision for impairment	**2,257**	**800**	**1,278**	–	**179**
Trade payables	**(2,334)**	**(886)**	**(1,199)**	–	**(249)**
Net financial liabilities	**(8,960)**	**(6,575)**	**(2,043)**	**(284)**	**(58)**

At 31 March 2008	Total £million	Sterling £million	Euros £million	Swiss Francs £million	Other £million
Bank overdrafts	(216)	(79)	(120)	–	(17)
Bank loans – senior facilities	(7,503)	(5,473)	(1,798)	(232)	–
Bank loans – subordinated facility	(744)	(744)	–	–	–
Bank loans – other	(120)	–	(89)	–	(31)
£300 million Eurobond 5.5%	(300)	(300)	–	–	–
Medium term notes	(14)	–	–	–	(14)
Loan notes	(368)	(367)	(1)	–	–
Finance lease liabilities	(53)	(48)	(5)	–	–
Total borrowings	(9,318)	(7,011)	(2,013)	(232)	(62)
Cash and cash equivalents	413	273	102	–	38
Restricted cash	366	366	–	–	–
Derivative financial instruments – currency and interest rate instrument assets	3	3	–	–	–
Derivative financial instruments – currency and interest rate instrument liabilities	(210)	(210)	–	–	–
Available-for-sale investments	48	10	38	–	–
Loans to customers and extended terms	115	–	109	–	6
Trade receivables net of provision for impairment	1,780	734	899	–	147
Trade payables	(1,849)	(882)	(767)	–	(200)
Net financial liabilities	(8,652)	(6,717)	(1,632)	(232)	(71)

24. Financial assets and liabilities (continued)

Finance lease liabilities

	2009			2008		
	Minimum lease payments £million	Interest £million	Principal £million	Minimum lease payments £million	Interest £million	Principal £million
Less than one year	**16**	**(1)**	**15**	26	(4)	22
Between one year and five years	**26**	**(2)**	**24**	30	(4)	26
More than five years	**22**	**(16)**	**6**	26	(21)	5
	64	**(19)**	**45**	82	(29)	53

Under the terms of the lease agreements, no material contingent rents are payable.

Present value of minimum lease payments	2009 £million	2008 £million
Less than one year	**16**	25
Between one year and five years	**24**	27
More than five years	**18**	17
	58	69

Carrying values and fair values of the Group's financial assets and liabilities held to finance the Group's operations were:

	2009		2008	
	Carrying value £million	Fair value £million	Carrying value £million	Fair value £million
Liabilities held at amortised cost				
Bank overdrafts	**(263)**	**(263)**	(216)	(216)
Bank loans – senior facilities	**(7,919)**	**(8,070)**	(7,503)	(7,696)
Bank loans – subordinated facility	**(597)**	**(615)**	(744)	(768)
Bank loans – other	**(165)**	**(165)**	(120)	(120)
£300 million Eurobond 5.5%	**(300)**	**(298)**	(300)	(286)
Medium term notes	–	–	(14)	(14)
Other loans	**(75)**	**(75)**	–	–
Loan notes	**(240)**	**(240)**	(368)	(368)
Finance lease liabilities	**(45)**	**(58)**	(53)	(69)
Trade payables	**(2,334)**	**(2,334)**	(1,849)	(1,849)
	(11,938)	**(12,118)**	(11,167)	(11,386)
Liabilities held at fair value				
Interest rate derivatives	**(82)**	**(82)**	(30)	(30)
Derivative instruments – foreign exchange contracts	–	–	(1)	(1)
Cross currency swap derivatives	**(168)**	**(168)**	(179)	(179)
	(250)	**(250)**	(210)	(210)
Loans and receivables financial assets				
Trade receivables net of provision for impairment	**2,257**	**2,257**	1,780	1,780
Loans to customers and extended terms	**112**	**112**	115	115
	2,369	**2,369**	1,895	1,895
Financial assets held at fair value				
Derivative instruments – foreign exchange contracts	**4**	**4**	1	1
Interest rate derivatives	–	–	1	1
Cross currency swap derivatives	–	–	1	1
Available-for-sale investments	**39**	**39**	48	48
	43	**43**	51	51
Cash and cash equivalents	**473**	**473**	413	413
Restricted cash	**343**	**343**	366	366
Net financial liabilities	**(8,960)**	**(9,140)**	(8,652)	(8,871)

24. Financial assets and liabilities (continued)

Fair values of bonds, available-for-sale investments and currency exchange contracts have been determined with reference to quoted market prices as applicable.

The fair values of interest rate derivatives and cross currency swaps have been calculated by discounting the future cash flows of the individual contracts using the appropriate market interest curve and currency exchange rate prevailing at 31 March 2009.

The fair value of bank overdrafts, bank loans – other, and loans to customers approximate to their carrying value due to either their short term nature or being re-priced at variable interest rates. The carrying values of the senior facilities and subordinated facility bank loans, which are variable rate, were lower than the fair values of the instruments due mainly to the impact of unamortised fees included in the carrying value.

All fair values were calculated based on their clean prices, excluding any accrued interest.

25. Financial instruments

Capital structure risk management
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group defines its capital employed of £13,216 million (2008: £12,759 million) as shareholders' equity of £4,182 million (2008: £4,013 million) and net borrowings of £9,034 million (2008: £8,746 million).

The ability of certain Group companies to pay dividends upwards, for ultimate distribution to shareholders, is restricted by the terms of the financing agreements to which they are party.

Liquidity risk management
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Access to cost-effective funding is managed by maintaining a range of committed and uncommitted facilities, sufficient to meet anticipated needs, arranging funding ahead of requirements, and developing diversified sources of funding.

Group liquidity is optimised through cash pooling and deposits with, or loans, from Group treasury companies.

The Group's core borrowings are provided through committed term loans. The carrying value of these loans, which are denominated in Sterling, Euros and Swiss Francs, at 31 March 2009 was £8,516 million (2008: £8,247 million) including the impact of repurchases, currency revaluation and reported net of unamortised fees incurred in respect of the loans. These loans mature between 2014 and 2017. The Group also has access to a committed £820 million (2008: £820 million) revolving credit facility, £194 million (2008: £200 million) of which has been utilised in providing guarantees and letters of credit principally to the Boots Pension Scheme and £626 million (2008: £620 million) of which was available as at 31 March 2009. This facility provides access to funding in a range of currencies and is available until 2014.

The Group's net borrowings vary throughout the year in a predictable seasonal pattern subject to material acquisitions and disposals. In particular, net borrowings peak in the period between September and November due to the working capital requirements of Christmas trading.

The Group monitors its net borrowing position on a daily basis against both budget and a rolling two month cash forecast. The maturity profile of the Group's financial liabilities at 31 March 2009 are shown in note 24.

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, derivative financial instruments, cash balances, restricted cash and short term deposits.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, at the balance sheet date.

Credit risk exposure to commercial counterparties is managed through credit control functions in each of the businesses. New customers are credit checked, customer limits are reviewed at least annually and aged receivable reviews are undertaken regularly.

The Group considers the possibility of significant loss in the event of non-performance by a financial or commercial counterparty to be unlikely.

At 31 March 2009 there were no significant concentrations of credit risk in respect of trade receivables and customer loans. The largest credit exposure of the Group at 31 March 2009 was to the National Health Service in the UK.

25. Financial instruments (continued)

The maximum exposure to credit risk for trade receivables net of provision for impairment and loans to customers and extended terms at 31 March 2009 by geographic region was:

	2009 £million	2008 £million
UK	**800**	733
Other European countries	**1,564**	1,155
Other countries	**5**	7
	2,369	1,895

Exposures to other financial counterparties arise from the use of derivative financial instruments, cash balances and short term deposits. The Group protects itself against the risk of financial loss arising from the failure of financial counterparties by setting ratings based limits to the maximum exposure to individual counterparties or their groups. Limits are set by reference to ratings issued by the major rating agencies, Standard and Poor's and Moody's Investors Service Limited.

At 31 March 2009 total exposures of the Group to other financial counterparties was £820 million (2008: £782 million) of which £4 million (2008: £3 million) related to derivative financial assets, £473 million (2008: £413 million) was in respect of cash and cash equivalents, and £343 million (2008: £366 million) was in respect of restricted cash.

£588 million (2008: £605 million) of derivative financial assets, cash and cash equivalents and restricted cash relate to balances managed centrally by Group treasury spread across a number of high quality counterparties, all of whom have a credit rating of A or better. The remaining £232 million (2008: £177 million) of cash and cash equivalents represents short term deposits, restricted cash, cash-in-transit and cash held in operational bank accounts across the Group. An analysis of the Group's cash and cash equivalents is provided in note 20.

Market risk
Market risk is the risk that changes in market prices, such as currency exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage market risks within acceptable parameters. The Group transacts in financial instruments including derivatives in order to manage these risks in accordance with the Group treasury policies approved by the Board.

Currency risk
The Group is party to a variety of currency derivatives in the management of exchange rate exposures, including cross currency swaps and currency exchange contracts. Movements in the fair value of all forward exchange contracts other than those that are designated and effective as cash flow hedges or net investment hedges are reported directly in the income statement.

Currency transaction risk
The Group utilises forward exchange derivatives to hedge significant committed and highly probable future transactions and cash flows.

At 31 March 2009, the Group had outstanding forward currency exchange contracts with a notional principal of £5 million (2008: £7 million) that were designated and effective as cash flow hedges of committed and highly probable forecast transactions. Fair value movements of these contracts have been deferred in equity until the hedged transaction takes place. These contracts all mature within one year of the balance sheet date.

A £1 million gain (period ended 31 March 2008: £1 million gain) has been deferred in equity as at 31 March 2009 in respect of these contracts, which is expected to be recycled to non-current non-financial assets within one year of the balance sheet date. A gain of £1 million (period ended 31 March 2008: £1 million loss) has been recycled to non-current non-financial assets in respect of contracts designated as cash flow hedges that have matured during the year to 31 March 2009.

The Group has significant non-Sterling denominated currency net investments denominated in Euros and Swiss Francs. The Group uses derivative financial instruments, specifically cross currency swaps, forward currency exchange contracts and non-Sterling currency borrowings to hedge the non-Sterling currency risk.

The Group has a number of cross currency swap contracts in place. At 31 March 2009, the fair value of the Group's cross currency swaps was a liability of £168 million (2008: £178 million). £33 million (2008: £14 million) of the liability related to currency swaps designated as net investment hedges of non-Sterling denominated currency net investments. Movements in fair value have been deferred in equity until the underlying hedged investment is sold. The remaining liability of £135 million (2008: £164 million) related to currency swaps designated as held for trading. The currency exchange risk associated with these swaps was hedged through the use of short dated forward currency exchange contracts designated as held for trading. At 31 March 2009 the fair value of these offsetting currency exchange contracts was a £4 million asset (2008: £1 million liability).

25. Financial instruments (continued)

The effect of currency swaps and forward contracts to manage translation risk on net borrowings was:

	2009 Before hedging £million	2009 After hedging £million	2008 Before hedging £million	2008 After hedging £million
Sterling	**(6,501)**	**(6,342)**	(6,579)	(6,473)
Euro	**(2,255)**	**(2,271)**	(1,911)	(1,928)
Swiss Franc	**(284)**	**(352)**	(232)	(289)
Other	**6**	**(69)**	(24)	(56)
Total net borrowings	**(9,034)**	**(9,034)**	(8,746)	(8,746)

At 31 March 2009 the total notional amount of outstanding currency exchange contracts that the Group has committed was £293 million (2008: £758 million).

At 31 March 2009 the balance sheet carrying value of the Group's outstanding forward exchange contracts was a £4 million asset (2008: £1 million asset and £1 million liability).

Currency risk – sensitivity analysis

The table below shows the Group's sensitivity to non-Sterling exchange rates on its non-Sterling financial instruments excluding trade payables and trade receivables, which do not represent a significant exposure to exchange rates.

A 10% (2008: 10%) strengthening of Sterling against the following currencies would have increased/(decreased) equity and profit by the amounts shown below. This analysis assumes that all other variables, including interest rates, remain constant and that instruments designated as net investment hedges remain highly effective. In this table financial instruments are only considered sensitive for exchange rates where they are not in the functional currency of the entity that holds them.

	2009 Impact on equity £million	2009 Impact on profit £million	2008 Impact on equity £million	2008 Impact on profit £million
Euro	**89**	**1**	75	3
Swiss Franc	**35**	**1**	29	1
Other	**2**	**(2)**	2	(4)

A 10% (2008: 10%) weakening of Sterling against these currencies at 31 March 2009 would have had the equal and opposite effect to that shown above on the basis that all other variables remain constant.

The movements in equity relate to non-Sterling borrowings and currency swaps used to hedge Group assets denominated in those currencies. An appreciation in the value of the borrowing or currency swap would be matched by a corresponding depreciation in the value of the Group asset which would also be in equity. Exchange rate sensitivities on Group assets other than financial instruments have not been shown in the table above.

Interest rate risk

The Board's policy is to protect its ability to service its debt obligations by ensuring that floating rate interest payments on not less than 50% of the principal outstanding under the facilities raised to finance the acquisition of Alliance Boots plc are hedged. Exposures are hedged through a combination of interest rate caps and interest rate swaps.

The Group has a mixture of fixed and floating rate borrowings. Before the impact of derivative financial instruments, £420 million (4%) of total borrowings were at fixed interest rates, predominantly relating to the £300 million Eurobond 2009 5.5%. The re-pricing risk of the fixed borrowings coincides with their maturity. The floating rate borrowings re-price within 6 months of the reporting date, based on short term borrowing rates for the relevant currency.

The Group had interest rate swaps with a notional principal of £500 million and €10 million respectively to swap £500 million and €10 million of outstanding borrowings from floating to fixed interest rates. The Group has also purchased interest rate caps with notional principal amounts of £3,500 million and €1,638 million to protect the Group from rising interest rates on the corresponding amount of borrowings. In the period to 31 March 2009 no amounts were deferred in equity in respect of these instruments. All of the fair value movements in these instruments from inception to 31 March 2009 have been recognised in the income statement.

25. Financial instruments (continued)

After taking into account the impact of derivative financial instruments, £5,953 million or 62% (2008: £5,611 million or 60%) of the Group's total borrowings were at fixed or capped interest rates. All other borrowings re-price within six months of the balance sheet date.

At 31 March 2009, £5,488 million or 64% (2008: £5,258 million or 64%) of the principal outstanding under the facilities raised to finance the acquisition of Alliance Boots plc was hedged.

The impact of a 1% increase and a 1% decrease in interest rates on 31 March 2009 on pre tax profit are shown in the table below. This analysis assumes that all other variables are held constant. On this basis there would have been no significant amounts recognised directly in equity.

	Year ended 31 March 2009 1% increase in interest rates £million	Year ended 31 March 2009 1% decrease in interest rates £million	Period ended 31 March 2008 1% increase in interest rates £million	Period ended 31 March 2008 1% decrease in interest rates £million
Gain/(loss) – derivative financial instruments	**38**	**(25)**	89	(42)
Gain/(loss) – variable rate financial instruments	**(88)**	**88**	(66)	66

26. Analysis of movement in net borrowings

Set out below is a reconciliation of the net increase in cash and cash equivalents to the increase in net borrowings at 31 March 2009. Net borrowings are defined by the Group as borrowings net of cash and cash equivalents, restricted cash, and derivative financial instruments.

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Net increase in cash and cash equivalents	**30**	210
(Decrease)/increase in restricted cash	**(161)**	366
Cash and cash equivalents outflow/(inflow) from decrease/(increase) in debt and debt financing[1]	**237**	(7,317)
Movement in net borrowings resulting from cash flows	**106**	(6,741)
Discounts on repurchase of acquisition borrowings	**106**	–
Loan notes issued for non-cash consideration	**(2)**	(366)
Restricted cash acquired with businesses	**126**	–
Borrowings acquired with businesses	**(72)**	(1,247)
Finance leases entered into	**(9)**	(10)
Amortisation of prepaid financing fees	**(46)**	(27)
Capitalised finance costs	**(27)**	(19)
Currency translation differences and fair value adjustments on financial instruments	**(470)**	(336)
Movement in net borrowings in the year/period	**(288)**	(8,746)
Net borrowings at beginning of year/period	**(8,746)**	–
Net borrowings at 31 March	**(9,034)**	(8,746)

[1] Comprised of proceeds from borrowings of £125 million (period ended 31 March 2008: £8,200 million), less repayment of borrowings, repurchase of acquisition borrowings and settlement of derivatives of £342 million (period ended 31 March 2008: £621 million), the element of fees associated with financing activities netted from net borrowings of £nil (period ended 31 March 2008: £246 million) and repayment of capital element of finance lease obligations of £20 million (period ended 31 March 2008: £16 million).

26. Analysis of movement in net borrowings (continued)

Set out below is an analysis of the movement in net borrowings during the year:

Year ended 31 March 2009	Cash and cash equivalents £million	Restricted cash £million	Borrowings within current liabilities £million	Borrowings within non current liabilities £million	Derivative financial instruments £million	Net borrowings £million
At 1 April 2008	**413**	**366**	**(733)**	**(8,585)**	**(207)**	**(8,746)**
Net increase/(decrease) in cash and cash equivalents	**48**	–	**(18)**	–	–	**30**
Decrease in restricted cash	–	**(161)**	–	–	–	**(161)**
Cash and cash equivalents outflow/(inflow) from decrease/(increase) in debt and debt financing	–	–	**243**	**(37)**	**31**	**237**
Discounts on repurchase of acquisition borrowings	–	–	–	**106**	–	**106**
Loan notes issued for non-cash consideration	–	–	–	**(2)**	–	**(2)**
Restricted cash acquired with businesses	–	**126**	–	–	–	**126**
Borrowings acquired with businesses	–	–	**(72)**	–	–	**(72)**
Finance leases entered into	–	–	**(2)**	**(7)**	–	**(9)**
Amortisation of prepaid financing fees	–	–	–	**(46)**	–	**(46)**
Capitalised finance costs	–	–	–	**(27)**	–	**(27)**
Non-cash movements	–	–	**(310)**	**310**	–	–
Currency translation differences and fair value adjustments on financial instruments	**12**	**12**	**(38)**	**(386)**	**(70)**	**(470)**
At 31 March 2009	**473**	**343**	**(930)**	**(8,674)**	**(246)**	**(9,034)**

Period ended 31 March 2008	Cash and cash equivalents £million	Restricted cash £million	Borrowings within current liabilities £million	Borrowings within non current liabilities £million	Derivative financial instruments £million	Net borrowings £million
At beginning of period	–	–	–	–	–	–
Net increase/(decrease) in cash and cash equivalents	413	–	(203)	–	–	210
Increase in restricted cash	–	366	–	–	–	366
Cash and cash equivalents inflow from increase in debt and debt financing	–	–	(134)	(7,183)	–	(7,317)
Loan notes issued for non-cash consideration	–	–	–	(366)	–	(366)
Borrowings acquired with businesses	–	–	(383)	(732)	(132)	(1,247)
Finance leases entered into	–	–	–	(10)	–	(10)
Amortisation of prepaid financing fees	–	–	–	(27)	–	(27)
Capitalised finance costs	–	–	–	(19)	–	(19)
Currency translation differences and fair value adjustments on financial instruments	–	–	(13)	(248)	(75)	(336)
At 31 March 2008	413	366	(733)	(8,585)	(207)	(8,746)

In the Group cash flow statement, cash and cash equivalents included bank overdrafts classified as borrowings within current liabilities in the balance sheet, which amounted to £263 million (2008: £216 million).

27. Movement in borrowings on acquisitions, disposals and investments in associates and joint ventures

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Acquisition of businesses		
– cash	**(138)**	(10,790)
– loan notes issued for non-cash consideration	**(2)**	(366)
Net borrowings of businesses acquired		
– cash and cash equivalents net of overdrafts	**25**	420
– restricted cash	**126**	–
– borrowings	**(72)**	(1,247)
Disposal of businesses	**1**	20
Purchase of investments in associates and joint ventures	**–**	(41)
	(60)	(12,004)

In the prior period, of the total movement, £11,886 million related to the acquisition of Alliance Boots plc, and £118 million related to other acquisitions.

28. Provisions

Year ended 31 March 2009	Refurbishment and reorganisation £million	Vacant property £million	Closure or termination of operations £million	Other £million	Total £million
At 1 April 2008	**49**	**16**	**17**	**6**	**88**
Acquisitions	**1**	**–**	**–**	**2**	**3**
Provisions created during the year	**50**	**9**	**2**	**–**	**61**
Provisions utilised during the year	**(7)**	**(8)**	**(9)**	**(3)**	**(27)**
Provisions released during the year	**–**	**–**	**(5)**	**(1)**	**(6)**
Currency translation differences	**3**	**–**	**–**	**1**	**4**
At 31 March 2009	**96**	**17**	**5**	**5**	**123**
Current	**81**	**5**	**1**	**1**	**88**
Non-current	**15**	**12**	**4**	**4**	**35**
	96	**17**	**5**	**5**	**123**

Refurbishment and reorganisation

The refurbishment and reorganisation provision relates primarily to the restructuring programme in the Pharmaceutical Wholesale Division and store refurbishments and supply chain reorganisation in the UK business within the Health & Beauty Division. The majority of these costs are expected to be incurred in the next two years. In respect of the store refurbishment programme, estimates of expected costs have been based on a store-by-store survey and comprise management's view of lease obligations.

Vacant property

The vacant property provisions represent recognition of the present value of the expected net costs arising from vacant properties and sub-let properties. The exact timing of utilisation of these provisions will vary according to the individual properties concerned.

Closure or termination of operations

The provision for closure or termination of operations relates mainly to restructuring of supply chain configuration in the UK business within the Health & Beauty Division.

29. Share capital

	2009 Number of shares	2009 £million	2008 Number of shares	2008 £million
Ordinary shares of CHF1,000:				
Authorised	**2,098,000**		2,000,000	
Allotted, called up and fully paid	**2,098,000**	**1,065**	2,000,000	1,005

On 26 March 2009, the Company increased its authorised ordinary share capital by 98,000 shares of CHF1,000, and these were issued to its existing shareholder at par. The total Sterling amount received was £60 million.

30. Equity

The movements in equity were:

Year ended 31 March 2009	Share capital £million	Share premium £million	Retained earnings £million	Other reserves £million	Shareholders' equity £million	Minority interests £million	Total equity £million
At 1 April 2008	**1,005**	**2,795**	**137**	**76**	**4,013**	**35**	**4,048**
Issue of share capital	**60**	–	–	–	**60**	–	**60**
Profit for the year	–	–	**101**	–	**101**	–	**101**
Other recognised income and expense for the year	–	–	**(107)**	**115**	**8**	**3**	**11**
Minority interests in businesses acquired	–	–	–	–	–	**4**	**4**
At 31 March 2009	**1,065**	**2,795**	**131**	**191**	**4,182**	**42**	**4,224**

Period ended 31 March 2008	Share capital £million	Share premium £million	Retained earnings £million	Other reserves £million	Shareholders' equity £million	Minority interests £million	Total equity £million
At beginning of period	–	–	–	–	–	–	–
Issue of share capital	1,005	2,795	–	–	3,800	–	3,800
Acquisition of Alliance Boots plc	–	–	–	–	–	16	16
Profit for the period	–	–	10	–	10	–	10
Other recognised income and expense for the period	–	–	127	76	203	2	205
Contribution from minority interests	–	–	–	–	–	17	17
At 31 March 2008	1,005	2,795	137	76	4,013	35	4,048

Other reserves movements were:

Year ended 31 March 2009	Available-for-sale reserve £million	Translation reserve £million	Cash flow hedge reserve £million	Total £million
At 1 April 2008	**(24)**	**99**	**1**	**76**
Exchange differences on translation of non-Sterling denominated operations	–	**94**	–	**94**
Net fair value movements on cash flow hedging instruments	–	–	**1**	**1**
Cumulative fair value gains recycled to non-current non-financial assets	–	–	**(1)**	**(1)**
Net fair value losses on available-for-sale investments deferred in equity	**(18)**	–	–	**(18)**
Cumulative net fair value losses recycled to the income statement on impairment	**39**	–	–	**39**
At 31 March 2009	**(3)**	**193**	**1**	**191**

30. Equity (continued)

Period ended 31 March 2008	Available-for-sale reserve £million	Translation reserve £million	Cash flow hedge reserve £million	Total £million
At beginning of period	–	–	–	–
Exchange differences on translation of non-Sterling denominated operations	–	99	–	99
Net fair value movements on cash flow hedging instruments	–	–	1	1
Net fair value losses on available-for-sale investments deferred in equity	(24)	–	–	(24)
At 31 March 2008	(24)	99	1	76

The nature and purpose of each reserve is:

Retained earnings
The Group's retained earnings reserve comprises the Group's retained earnings, net of distributions made to equity holders, together with actuarial gains and losses on defined benefit schemes and related tax movements.

Available-for-sale reserve
The available-for-sale reserve comprises the cumulative net change in the fair value of the Group's available-for-sale investments. Net fair value movements are recycled to the income statement if an underlying available-for-sale investment is either derecognised or impaired.

Translation reserve
The translation reserve comprises all currency exchange differences arising from the translation of the financial statements of non-Sterling denominated operations into the presentation currency of the Group, as well as from the translation of liabilities that hedge the Company's net investment in non-Sterling denominated subsidiaries.

Cash flow hedge reserve
The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to the hedged risks on highly probable forecast transactions that have not yet occurred. When a forecast transaction occurs and the hedged risk is realised, an appropriate amount is recycled from the cash flow hedge reserve either to the income statement or to the carrying value of a non-current non-financial asset, according to where the underlying cash flow is recorded.

31. Acquisitions and disposals of businesses

Acquisitions during the year ended 31 March 2009
The principal businesses acquired during the year were Megapharm, a provider of specialised wholesaling and logistics services for oncology products, Depolabo, a provider of pharmaceutical pre-wholesale and contract logistics services, Central Homecare, a provider of home healthcare services, and 19 pharmacies.

These acquisitions are deemed to be individually immaterial and are therefore disclosed in aggregate. Details of the aggregate net assets acquired at the dates of acquisition, as adjusted from book to fair value, the purchase consideration transferred, and the attributable goodwill were:

	Book value at acquisition £million	Fair value adjustments £million	Fair value £million
Other intangible assets	**2**	**71**	**73**
Property, plant and equipment	**7**	**6**	**13**
Inventories	**11**	–	**11**
Trade and other receivables	**183**	–	**183**
Net cash	**58**	**21**	**79**
Trade and other payables, and provisions	**(318)**	**(4)**	**(322)**
Deferred tax assets/(liabilities)	**2**	**(17)**	**(15)**
	(55)	**77**	**22**
Minority interests			**(4)**
Goodwill arising on acquisitions			**112**
			130
Satisfied by			
– Cash			**126**
– Loan notes			**2**
– Costs incurred on acquisitions			**2**
			130

Net cash acquired comprised cash and cash equivalents of £25 million, restricted cash of £126 million less borrowings of £72 million.

The goodwill arising on the acquisition of these businesses represents the strategic value placed on the diversification of the Group's pharmaceutical wholesale service proposition.

In addition, the Group recorded a cash outflow of £10 million relating to acquisitions made in prior periods.

31. Acquisitions and disposals of businesses (continued)

Acquisitions during the period ended 31 March 2008
On 26 June 2007 the Group acquired 100% of the ordinary shares of Alliance Boots plc. The total purchase consideration of £11,059 million comprised £10,608 million cash and £366 million loan notes along with £85 million of costs incurred on the acquisition. The cash element of the consideration is shown net of £82 million in respect of proceeds from excess shares held in employee benefit trusts and £18 million of cash proceeds received on issue of shares to satisfy share options exercised on acquisition.

Details of the aggregate net assets acquired at the dates of acquisition, as adjusted from book to fair value, the purchase consideration transferred, and the attributable goodwill were:

	Book value at acquisition £million	Fair value adjustments £million	Fair value £million
Other intangible assets	1,516	3,841	5,357
Property, plant and equipment	1,671	336	2,007
Investments in associates and joint ventures	634	103	737
Available-for-sale investments	63	–	63
Net retirement benefit obligations	(3)	–	(3)
Inventories	1,359	–	1,359
Trade and other receivables	2,236	–	2,236
Net borrowings	(818)	(9)	(827)
Trade and other payables, and provisions	(2,605)	(75)	(2,680)
Current and deferred tax liabilities	(531)	(1,008)	(1,539)
	3,522	3,188	6,710
Minority interests			(16)
Goodwill arising on acquisition			4,365
			11,059
Satisfied by			
– Cash			10,608
– Loan notes			366
– Costs incurred on acquisition			85
			11,059

32. Operating leases

At 31 March 2009 outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due were:

	2009 £million	2008 £million
Less than one year	**294**	270
Between one and five years	**974**	929
More than five years	**1,316**	1,297
	2,584	2,496

The Group leases a number of its properties under operating leases. The leases run predominantly for periods from 1 to 25 years, with options to break the leases during the period and renew the leases at the end of the period. Lease rentals are increased at regular intervals to reflect market rentals. None of the leases include material contingent rentals. Rental income from sub-let properties was £14 million (period ended 31 March 2008: £12 million).

33. Commitments and contingent liabilities

Commitments
Capital expenditure contracted for at the balance sheet date but not yet incurred was £49 million (period ended 31 March 2008: £34 million) in respect of property, plant and equipment.

Contingent liabilities
The Group did not have any material contingent liabilities other than those arising in the normal course of business.

34. Retirement benefit schemes

The Group operates a number of retirement benefit schemes in the UK and other countries including both defined benefit and defined contribution schemes.

Defined benefit schemes

The principal scheme is the Boots Pension Scheme. This scheme, which is closed to new members, has continued with its investment strategy of planning to hold 15% of its assets in equity and property to back long term liabilities, and 85% of its assets in a diverse portfolio of high quality bonds to match liabilities up to 35 years. The other large scheme is the Alliance UniChem UK Group Pension Scheme. This scheme, which is also closed to new members, plans to hold 50% of its assets in return-seeking asset classes such as equities and 50% in investments with cash flows which match projected pension obligations under a liability-driven investment strategy. Both schemes entered into Memoranda of Understanding during 2007/08 with the Group, the main elements of which were an agreement that conservative investment strategies would be maintained and a commitment to pay additional contributions. The additional contributions comprised £102 million in 2007/08 with a further £366 million to be made over ten years from August 2008. £20 million was paid in 2008/09, with the same amount committed in each of the following four financial years.

The net amount recognised in respect of defined benefit schemes was:

	2009 £million	2008 £million
Present value of defined benefit scheme liabilities	**(3,354)**	(3,584)
Less fair value of defined benefit scheme assets		
– bonds	**3,054**	3,140
– equities	**373**	496
– other plan assets	**115**	245
	3,542	3,881
	188	297
Analysed as:		
– assets	**216**	317
– liabilities	**(28)**	(20)
	188	297

The change in the present value of defined benefit scheme liabilities was:

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
At beginning of year/period	**3,584**	–
Acquisition of Alliance Boots plc	**–**	3,696
Current service costs	**52**	43
Past service costs	**2**	2
Interest on defined benefit scheme liabilities	**241**	157
Employee contributions	**11**	18
Net actuarial gains	**(408)**	(228)
Benefits paid	**(138)**	(113)
Currency translation differences	**10**	9
At 31 March	**3,354**	3,584

34. Retirement benefit schemes (continued)

The change in the fair value of defined benefit scheme assets was:

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
At beginning of year/period	**3,881**	–
Acquisition of Alliance Boots plc	–	3,693
Employer contributions	**107**	160
Employee contributions	**11**	18
Expected returns on defined benefit scheme assets	**234**	163
Experience losses	**(560)**	(47)
Benefits paid	**(138)**	(113)
Currency translation differences	**7**	7
At 31 March	**3,542**	3,881

The Group expects to contribute approximately £111 million, including £20 million of deficit funding, to its defined benefit schemes in the year ended 31 March 2010.

The expense recognised in the income statement was:

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Current service costs	**(52)**	(43)
Past service costs	**(2)**	(2)
	(54)	(45)
Expected returns on defined benefit scheme assets	**234**	163
Interest on defined benefit scheme liabilities	**(241)**	(157)
	(61)	(39)

The expense was recognised in the following line items in the income statement:

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Profit from operations	**(54)**	(45)
Finance income	**234**	163
Finance costs	**(241)**	(157)
	(61)	(39)

The amounts recognised in the statement of recognised income and expense were:

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Experience (losses)/gains on defined benefit scheme liabilities	**(21)**	3
Changes in assumptions underlying the present value of defined benefit scheme liabilities	**429**	225
Experience losses on defined benefit scheme assets	**(560)**	(47)
	(152)	181

The cumulative amount of actuarial gains and losses recognised in the statement of recognised income and expense at 31 March 2009 was a net gain of £29 million (2008: £181 million gain).

34. Retirement benefit schemes (continued)

The principal actuarial assumptions at the balance sheet date were:

	2009		2008	
	UK	Non-UK	UK	Non-UK
Discount rate for defined benefit scheme liabilities	**6.9%**	**5.9%**	6.8%	5.8%
Inflation	**2.9%**	**2.3%**	3.6%	2.2%
Rate of general long term increase in salaries	**4.4%**	**2.7%**	5.1%	2.6%
Rate of increase to pensions in payment	**2.9%**	**3.2%**	3.5%	1.6%

The expected return on defined benefit scheme assets was:

	2009 UK	2008 UK
Bonds	**5.7%**	5.8%
Equities	**7.9%**	8.1%
Property	**7.0%**	7.1%
Other	**3.7%**	5.4%

The expected return on non-UK defined benefit scheme assets ranged from 5.0% to 6.4% (period ended 31 March 2008: 5.0% to 6.4%). The expected rate of return on defined benefit scheme assets has been determined with reference to historic and projected market returns. The actual return on defined benefit scheme assets was a £299 million loss (period ended 31 March 2008: £116 million gain).

The mortality assumption used to value the majority of scheme liabilities was based on 2000 series tables, with scaling factors of 110% for males and 120% for females, allowing for medium cohort improvements. This has been adjusted to take account of the actual experience of schemes where this data is of sufficient size. The impact of medium cohort improvements has been included recognising the continued recent improvements in published mortality investigation data. The mortality assumptions will continue to be reviewed to ensure they remain appropriate.

The projected life expectancy from the age of 60 years was:

	2009 Currently aged 45	2009 Currently aged 60	2008 Currently aged 45	2008 Currently aged 60
Male	**26.8**	**25.8**	26.7	25.7
Female	**28.6**	**27.7**	28.3	27.4

A sensitivity analysis on the principal assumptions used to measure the scheme liabilities at the balance sheet date is:

	Change in assumption	Impact on scheme liabilities
Discount rate	**Increase by 0.25%**	Decrease by 4.1%
Rate of inflation	**Increase by 0.25%**	Increase by 4.0%

An increase of one year in the assumed life expectancy at age 60 would increase the present value of defined benefit scheme liabilities by 2.2% (2008: 2.5%).

Defined contribution schemes

The Group operates a number of defined contribution schemes. During the year the Group contributed £17 million (period ended 31 March 2008: £10 million).

35. Related parties

Parent and ultimate controlling party

At 31 March 2009, AB Acquisitions Holdings Limited was the immediate and ultimate parent company of Alliance Boots GmbH.

AB Acquisitions Holdings Limited is incorporated in Gibraltar, and its registered office is 57/63 Line Wall Road, Gibraltar. AB Acquisitions Holdings Limited is jointly controlled by Alliance Santé Participations S.A., and by certain funds advised by Kohlberg Kravis Roberts & Co. L.P.. S. Pessina and O. Barra, who are Directors of Alliance Boots GmbH, are also directors of Alliance Santé Participations S.A., which is ultimately owned by a family trust.

35. Related parties (continued)

Key management personnel
Key management personnel comprise the Directors of Alliance Boots GmbH and, in addition, W. Zettel through his directorship of AB Acquisitions Holdings Limited. The Directors of Alliance Boots GmbH are:

S. Pessina* (Executive Chairman)
G.R. Fairweather*
M. Pagni*
O. Barra*
S.W.J. Duncan*
A. Gourlay*
D. Murphy
M. Caprioli
S. D'Angelo
N.C.E. Land
C. Britton
A. De Nunzio
E. Jornod

* executive Directors

Key management personnel remuneration
The remuneration of the key management personnel of the Group comprised:

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Short term employee benefits	**4**	3
Post-employment benefits	**–**	–

Other transactions with key management personnel
On the acquisition of Alliance Boots plc, shareholders, including key management personnel, were able to elect to receive consideration in the form of loan notes. The amount of loan notes owing to key management personnel at 31 March 2009 was £nil (2008: £0.2 million).

Together with other senior managers, the executive Directors were invited to participate in a management equity plan which is designed to enable them, as investors, to share in the future financial success of the Group through an investment of personal capital. To assist participation, the Group offered loans under commercial terms, and at 31 March 2009 the loan amounts outstanding in respect of key management personnel was £0.5 million (2008: £0.6 million). The loans are repayable in annual instalments over five years to June 2012.

During the year, S. Pessina acquired £12 million of the principal of the £300 million Eurobond 2009 5.5% bringing his total interest at 31 March 2009 to £22 million. In addition, A. De Nunzio also acquired an £3 million of the principal in the same bond, and held this at 31 March 2009. The bond, which was originally issued by a subsidiary of Alliance Boots plc in May 1999, is due for repayment on 26 May 2009, and is publicly traded.

During the year, S. Pessina received 278 shares in Galenica Ltd., an associate investment of the Group, in lieu of fees for his services as a director. At 31 March 2009, S. Pessina owned 497 shares in Galenica Ltd.. During the year, E. Jornod acquired 394 shares in Galenica Ltd. and at 31 March 2009 owned 10,718 shares and a conditional right to acquire 8,750 shares in 2012.

Key management personnel may purchase goods for personal and family use from the Health & Beauty Division business in the UK on the same terms and conditions as those available to all other UK employees of the Group.

Transactions with other related parties
As disclosed in the shareholder circular sent to the shareholders of Alliance Boots plc on 26 May 2007, Kohlberg Kravis Roberts & Co. L.P. and Alliance Santé Participations S.A. or their respective designees are each entitled to receive an annual monitoring fee. During the year, each party received £2.7 million (period ended 31 March 2008: £1.8 million), of which £0.7 million was outstanding to each party at 31 March 2009 (2008: £0.6 million and £1.8 million outstanding, respectively).

The Group paid £0.1 million (period ended 31 March 2008: £0.1 million) for accounting services to an entity which is considered to be a related party by virtue of it being jointly controlled by a director of AB Acquisitions Holdings Limited. The transaction was on an arm's length basis.

35. Related parties (continued)

The Group, in its normal course of business, transacts with other entities controlled or significantly influenced by Kohlberg Kravis Roberts & Co. L.P.. All transactions are carried out on an arm's length basis.

During the year, AF Lux Finance S.A. acquired £30 million of the principal of the Group's senior facilities bank loans from holders in the secondary market. S. Pessina is a director of AF Lux Finance S.A. which is owned by the same family trust that ultimately owns Alliance Santé Participations S.A..

During the year, the Group's immediate parent company provided the Group with a five year fixed rate loan of £135 million. Shortly before the year end, £60 million was replaced by an investment in Alliance Boots GmbH's share capital and the remaining £75 million novated to a new lender, a fellow subsidiary of the immediate parent company. This loan is on an arm's length basis.

Subsidiary undertakings

The Group's principal subsidiary undertakings, all of which are indirectly held, were:

	Percentage held by subsidiary undertakings	Country of operation	Country of incorporation	Main activity
Health & Beauty Division				
Boots UK Limited	100	UK	England and Wales	Pharmacy-led health and beauty retailing
Alliance UniChem Norge A.S.	100	Norway	Norway	Retail pharmacy operator
Boots Retail (Ireland) Limited	100	Republic of Ireland	Republic of Ireland	Pharmacy-led health and beauty retailing
Alliance Apotheek B.V.	100	The Netherlands	The Netherlands	Retail pharmacy operator
Boots Retail (Thailand) Limited	100	Thailand	Thailand	Pharmacy-led health and beauty retailing
Pharmaceutical Wholesale Division				
Alliance Healthcare France S.A.	99.8	France	France	Pharmaceutical wholesaling and distribution
Alliance Healthcare (Distribution) Limited[1]	100	UK	England and Wales	Pharmaceutical wholesaling and distribution
Alliance Healthcare S.A.	99.2	Spain	Spain	Pharmaceutical wholesaling and distribution
Alliance Healthcare Italia SpA	100	Italy	Italy	Pharmaceutical wholesaling and distribution
Alliance Healthcare B.V.	100	The Netherlands	The Netherlands	Pharmaceutical wholesaling and distribution
Apteka Holding ZAO	66	Russia	Russia	Pharmaceutical wholesaling and distribution
Alliance Healthcare s.r.o.	97.1	Czech Republic	Czech Republic	Pharmaceutical wholesaling and distribution
Alliance Healthcare Norge (Norway) A.S.2	100	Norway	Norway	Pharmaceutical wholesaling and distribution
Megapharm GmbH	90	Germany	Germany	Pharmaceutical wholesaling and distribution
Boots International Limited	100	UK	England and Wales	Wholesaling of Boots branded products
Contract Manufacturing				
BCM Limited	100	UK	England and Wales	Contract manufacturing

[1] Formerly UniChem Limited
[2] Formerly Holtung A.S.

In addition to the direct holding in Apteka Holding ZAO above, Hedef Alliance Holding A.S., an associate in which the Group has a 50% interest, has a direct interest of 30% in Apteka Holding ZAO.

Associates and joint venture

The Group's principal associates and joint venture were:

	Percentage interest in ordinary share capital and voting rights	Country of operation	Country of incorporation	Main activity
Associates				
Hedef Alliance Holding A.S.	50	Turkey	Turkey	Pharmaceutical wholesaling
Andreae-Noris Zahn AG	29.99	Germany	Germany	Pharmaceutical wholesaling
Galenica Ltd.[1]	25.5	Switzerland	Switzerland	Pharmaceutical manufacturing, wholesaling and retailing
Alliance Healthcare S.A.	49	Portugal	Portugal	Pharmaceutical wholesaling
Joint venture				
Guangzhou Pharmaceuticals Corporation	50	China	China	Pharmaceutical wholesaling

[1] All shares have the same voting rights, but no shareholder may exercise more than 20% of the votes.

35. Related parties (continued)

The accounting reference dates of the associates and joint venture is 31 December with the exception of Andreae-Noris Zahn AG, which has a reference date of 31 August.

Transactions with associated undertakings and joint ventures, all of which are carried out on an arm's length basis were:

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Revenue in year/period	**6**	4
Purchases in year/period	**(3)**	(1)
Amounts due from	**1**	1
Amounts due to	**–**	(1)

During the prior period the Group disposed of its pre-wholesale and contracts logistics business in Portugal to Alliance Healthcare S.A., the Group's Portuguese associate, for £5 million.

36. Accounting estimates and judgements

In preparing the Consolidated Financial Statements, the management of Alliance Boots GmbH is required to make estimates and judgements. The matters described below are considered to be the most important in understanding the judgements that are involved in preparing these statements and the uncertainties that could impact the amounts reported in the results of operations, financial position and cash flows. The Group accounting policies are described in note 2.

Fair value measurement on a business combination
The measurement of fair values on a business combination requires the recognition and measurement of the identifiable assets, liabilities and contingent liabilities. The key judgements involved are the identification and valuation of intangible assets which require the estimation of future cash flows and the selection of a suitable discount rate.

Impairment of intangible assets, including goodwill, and tangible assets
Following the acquisition of Alliance Boots plc in 2007/08, the Group has significant carrying values of goodwill and intangible assets, such as pharmacy licences, brands and customer relationships. Goodwill and other indefinite life intangibles, such as pharmacy licences and certain brands are held at cost and tested annually for impairment. Amortised intangible and tangible assets are tested for impairment where there are indications of impairment. The impairment tests involve estimation of future cash flows and the selection of a suitable discount rates. These require an estimation of the value-in-use of the cash generating units to which the intangible assets are allocated (note 14).

Measurement of defined benefit scheme liabilities
The Group recognises and measures costs relating to defined benefit schemes in accordance with IAS 19, 'Employee Benefits'. In applying IAS 19, the costs are assessed in accordance with the advice of independent qualified actuaries. This requires the exercise of significant judgements in relation to the estimation of future changes in salaries and inflation, as well as mortality rates, and the selection of suitable discount rates. Further detail is provided in note 34.

Revenue
In the Health & Beauty Division, reimbursement of dispensing revenue is initially estimated because the actual reimbursement is often not known until after the month of sale.

In respect of loyalty schemes, principally the Boots Advantage Card, liabilities are recorded to estimate the proportion of the points issued which will be redeemed by customers.

Supplier rebates
The recognition of supplier rebates may require estimation when the reporting period end is not coterminous with the end of the predetermined period over which the rebate is earned.

Provisions
Provisions are recognised in the period when it becomes probable that there will be a future outflow of funds resulting from past operations or events which can be reasonably estimated. The timing of recognition requires the application of judgement to existing facts and circumstances, which can be subject to change.

Estimates of the amounts of provisions recognised are based on current legal and constructive requirements, technology and price levels. Actual outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, and therefore the carrying amounts of provisions are regularly reviewed and adjusted to take account of such changes.

37. Risk assessment

The Group's executive Directors play the leading role in internal controls, monitoring the overall risk profile and regularly reporting to the Board through the audit committee. In addition, the Board through the executive Directors is responsible for determining clear policies as to what the Group considers to be acceptable levels of risk. These policies seek to enable people throughout the Group to use their expertise to identify risks that could undermine performance and to devise ways of bringing them within acceptable levels. Where risks are identified that are not acceptable, action plans are developed to mitigate them with clear allocation of responsibilities and timescales for completion and ensure that progress towards implementing these plans is monitored and reported upon.

Further detail on the risks faced by the Group and the internal control process are set out in the Annual Review.

38. Post balance sheet events

Subsequent to 31 March 2009, the Group has completed the merger of Boots Opticians with Dollond & Aitchison to create the second largest optical chain in the UK.

Subsequent to 31 March 2009, the Group has agreed to repurchase further acquisition borrowings from holders in the secondary market. The nominal value of borrowings to be repurchased is £227 million for a cash cost of £142 million.

Glossary of key terms

Exceptional items
Items classified by the Group as exceptional in nature. These are not regarded as forming part of the trading activities of the Group and so merit separate presentation to allow stakeholders to understand the elements of financial performance and assess trends in financial performance.

IAS 39 timing differences
Derivative financial instruments are used to hedge interest rate and currency exposures. IAS 39 dictates whether changes in the fair value of these instruments can be matched in the income statement by changes in the fair value of the item being hedged. Where they cannot be matched, or do not fully match, the unmatched amount represents a timing difference that will reverse over the life of the financial instruments.

Net borrowings
Cash and cash equivalents, restricted cash, derivative financial instruments and borrowings net of unamortised prepaid financing fees.

Net finance costs
Finance costs net of finance income.

Restricted cash
Cash pledged as collateral in respect of loan note obligations and deposits restricted under contractual agency agreements.

Trading profit
Profit from operations before exceptional items, amortisation of customer relationships and brands, and share of post tax earnings of associates and joint ventures.

Underlying tax charge/credit
Tax charge/credit excluding tax on exceptional items, amortisation of customer relationships and brands, IAS 39 timing differences and exceptional tax.

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